Nation's Business

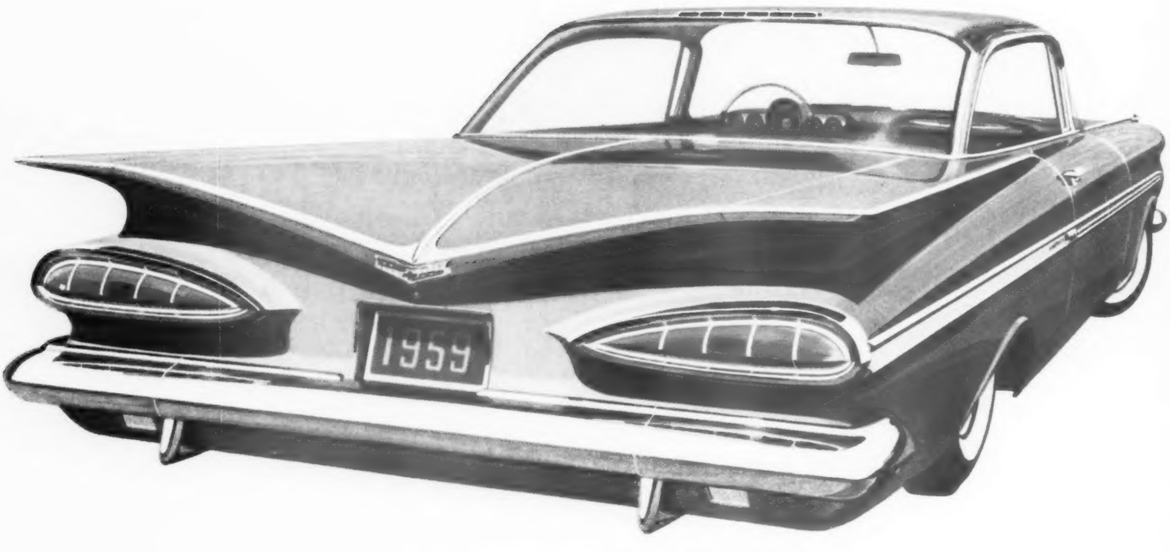
A USEFUL LOOK AHEAD

NOVEMBER 1958

NEW PROBLEMS CHANGE UNIONS' FUTURE

PAGE 78

The Bel Air 4-Door Sedan with a roomier Body by Fisher.



Impala Sport Coupe—new down to its tougher Tyrex cord tires.

Nation's Business

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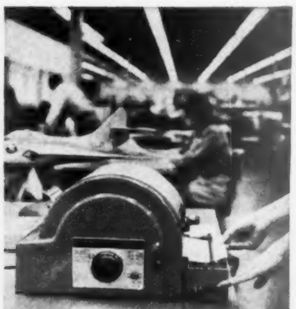

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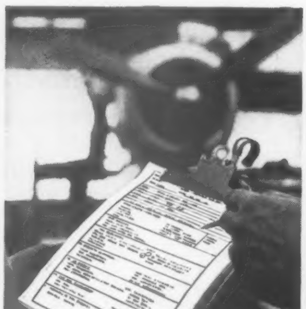

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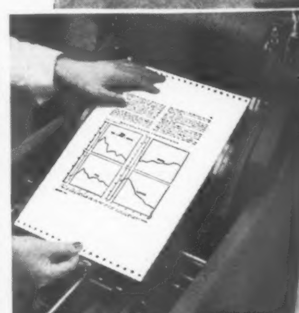

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management's WASHINGTON LETTER

▶TWO FACTORS will dominate business climate in year ahead.
One's economic.
The other's political.

▶ON ECONOMIC FRONT--
News is good.
Business upswing is firm.
New year will begin with indicators climbing.
But it will be a year when you'll have to think sharp, plan sharp.
For some guidelines see "Chart Future Expansion Now," on page 31.

▶ON POLITICAL FRONT--
News not so good.
Antibusiness forces are out to grab greater power in next Congress.
Here's what unions want, will push hard for:
Overhaul of Taft-Hartley Act.
Safeguards from racketeers--with laws that will involve management.
Extension of minimum wage, boosting pay floor another 25 per cent, broader authority for wage control in companies with government contracts.
Socialized medicine--with hospital care, nursing home, surgical benefits as new part of social security program.
Federal school aid--with money for teachers' pay, construction, etc.
Tax cuts for low and middle income groups, excise changes, tax exemption for payments to federal retirement systems.
Broader unemployment pay.
Extension of public housing, federal slum clearance, urban renewal.
Higher retirement pay, unemployment pay for railroad workers.
Federal workmen's compensation.
Broader fringe benefits for federal employes, recognition of federal employe union organizations.
Self-financing for TVA, expansion of federal atomic power development.
Federal redevelopment of local areas.

▶TO WIN legislative program, unions will pull out all stops.
Fifty unions have headquarters in Washington, others have offices.

▶SURGE OF ANTIBUSINESS strength needn't deter your efforts to take more vigorous role in politics. Fact is, business drive is getting under way as growing number of companies plan deeper plunge into politics.
Long-range prospects are bright for effective action by business.
To build strength, coordinate effort for business' long-term fight, U. S. Chamber of Commerce is planning series of political participation sessions.
For details write Business Relations Dept., U. S. Chamber, Washington, D. C.

▶CHANGES ARE COMING in membership of some key congressional committees.
Example: Ways and Means.
This House group handles taxes, social security, trade policy, etc.
Committee will get 25 per cent new members in January.
Here's importance to business:
Assignment from friends-of-labor camp will make tougher sledding for legislation you want, ease way for laws you don't want.

▶REMEMBER SPUTNIK hysteria?
That was a year ago, after Soviets sent first earth satellite into space.
It was heyday for gloom merchants, panic button pushers, free spenders--who said we stood at brink of disaster.
What followed? Where are we today? What's coming?
U. S. missile program moves along, our own satellites are orbiting, space missile spins out nearly 80,000 miles.
Communism is forced to back down in pocket wars, our strategic bomber force deters Russia from risking all-out military adventure.
But something else is happening.
It's the big federal deficit this year and next, other deficits to follow.
That's one thing Russia wanted.

▶PRICE OF HYSTERIA is high.
Sputnik furor brought demands for big spending programs, followed by other demands because of recession.
Analysis of post-Sputnik spending spree shows what really is happening now, what to expect.
Military preparedness so far has got smallest spending boost of all.
Here are the facts:
Major national defense will go up one

per cent this year. That's amount added since Sputnik.

Also added:

17 per cent boost for all other items in federal budget.

These include:

Commerce, federal housing--going up 117 per cent.

Labor, welfare spending--going up 19 per cent.

Cost of general government--also going up 19 per cent.

Farm spending--39 per cent rise.

▶COMPARISON OF '59 spending with 1955 shows direction we're headed.

Here are the facts:

Major national security will be 11 per cent higher.

All other budget items will be 44 per cent higher.

These include:

Commerce, federal housing--up 158 per cent.

Labor, welfare spending--up 70 per cent.

International affairs, finance--100 per cent rise.

Veterans' benefits--16 per cent rise.

Natural resources--41 per cent boost.

General government--up 39 per cent.

Farm spending--45 per cent rise.

By-product: Higher federal debt will cost 18 per cent more interest.

Still to come: Higher defense costs.

Informed guess is Pentagon spending will go up about $1 billion a year in 1960, other years to come.

▶HIGHER TAXES are coming for business in many states, local areas.

Here's situation in states:

Expenditures are climbing faster than income.

Study shows spending by all states up 11.7 per cent in one year.

Tax collections are up 8.6 per cent.

But corporation income taxes are up 10.6 per cent, corporation licenses up 22.4 per cent.

Note: State revenue from federal government is up 15.6 per cent.

Forecast: Many state legislatures meeting next year will approve higher taxes.

Two thirds of legislatures that met this year approved tax boosts.

That's a record for off year.

One key to growing taxes:

States are expanding services.

Survey shows one state has added more than 100 new activities since 1950.

▶CITIES ARE GOING AHEAD with public works projects that will cost billions.

Survey shows what 600 cities plan:

479 drainage, sewer improvements.

430 street improvements.

353 water supply projects.

311 public buildings.

241 parking garages.

189 street lighting extensions.

Additional plans call for new parks, improvements, airports, utility construction, miscellaneous developments.

Total cost: More than $6 billion in coming five years.

Note: In year just past cities stepped up expenditures by 13.2 per cent.

Revenue went up 8.4 per cent.

▶BUSINESS CONFIDENCE is mounting.

That's shown by preliminary sampling for NATION'S BUSINESS survey.

Indicated:

High level of optimism.

Survey's full details coming next month.

Survey will show:

Expectations on prices, wages, costs, employment outlook.

▶CONSUMER CREDIT'S pickup foreshadows new rise in sales.

Biggest rise will come in durables.

Forecast, background study starts on page 42.

▶CURIOUS FEATURE of business upswing:

Fact that many companies are finding they can get along without some employes let off during early 1958.

Washington experts are looking hard to find out why.

Their analysis:

Workers not being rehired are unskilled, semiskilled persons.

As economy gains momentum, productivity improvements (new machines, new methods) make unskilled workers unneeded.

Predicts one official:

"This will bring some new problems.

"For one thing, it means jobless total

won't shrink quickly to last year's low of 2.5 million jobless."

Future stress, he says, will be on training for new skills.

Jobless total will dissolve as number of unskilled workers develop skills.

▶WATCH FOR RUSSIA to try to turn Pioneer space flight against U. S. in coming propaganda splurge.

Here's the story in advance:

Russia's Sputniks are proving flopniks for Kremlin--view of some top Washington officials evaluating prospects for future thinking in less-developed nations.

Russia made headlines a year ago with space satellites, created excitement around the world.

But now people in less-developed countries are asking:

"Do Sputniks advance human welfare?"

Masses of people in growth countries don't see how they are helped.

Recent anticommunist statements by India's Nehru point this up.

Fact is, countries like India are looking for ways to progress economically, to provide their people with higher living standards.

Space stunts, missiles provide no easily seen answer to human welfare problems.

Some analysts feel:

Salk vaccine or something like it will do more in long run to make friends in uncommitted countries than examples of frightening military technology.

As this realization spreads, Russians will seize propaganda initiative to make U. S. appear warlike, to make Moscow's collectivism appear peacelike.

Chief communist theme will be:

"How does moon flight keep your people from starving?"

Answer, for U. S., won't be easy.

▶FEDERAL-STATE RELATIONS in labor matters will get increasing attention in Washington.

Supreme Court--Six of 25 pending labor cases involve right of state courts to enforce labor-management contracts, enjoin union picketing, award damages.

Labor Board--NLRB will broaden jurisdiction to include about 20 per cent of cases it has been rejecting because of limited impact on interstate commerce.

Congress--State labor officials want Congress to approve legislation permitting state agencies to act in any cases rejected by federal labor board.

Involved is jurisdiction of cases that fall in no-man's land, involving neither federal nor state law.

▶NEXT BIG SHOWDOWN in wage bargaining will come next June in steel industry.

That's when three-year pacts in basic steel will expire.

Steel union boss Dave McDonald already is talking tough, hinting at strike.

McDonald is trying to blame big steel for internal union dissension.

He figures he must score a big victory in 1959 to justify hold on his $50,000 union post.

Note: Auto industry will be quiet in '59.

That's assured by fact that auto and trucking contracts were buttoned up for three more years in recent negotiations.

▶KEEP IN MIND what economists call "the fallacy of composition."

That's the hole in the doughnut of do-gooders--both economic and social.

Fallacy is that if everyone gets more money everyone will be better off.

Fact is that if everyone gets more, higher costs will force price rise--and everyone will be exactly as well off as he is today.

▶TRENDS: Forecast shows Americans may buy more than 50 million new cars between now and '65. . . . Social Security Administration has backlog of more than 16,000 appeals from persons turned down for benefits; figure was 2,800 two years ago. . . . Farmers are moving to town. Persons on farms numbered 25 million in '50, now total about 20 million. . . . This year's wheat crop will exceed '52 crop by nine per cent--grown on 24 per cent fewer acres. . . . Survey shows 43 of 78 national unions now pay strike benefits. . . . Total of 105 million Americans are of voting age; total passed 100 million four years ago. . . . Business spending for research and development this year will equal or exceed last year. That's survey finding by National Industrial Conference Board.

Letters from businessmen

Boss is basic . . .

I thoroughly enjoyed reading "Business Needs Mature Autocrats." This is a new way of looking at an old problem and a very clever statement of the problem. I am sure that you are correct in thinking that a lot of social scientists just do not recognize this very basic principle and it is nice to see it stated.

One thing which I did not find in your article, nor have I found it in very many places, is the necessity for "feedback" in the collection of data on which to make decisions. The trouble with the autocrat who is feared by his subordinates is that he sits in an ivory tower and finds out only those things which people want him to know—other than such things as he may be able to dig out for himself. The so-called democratic leader, by making himself one of the team, now makes it possible for the team to criticize his actions and thereby bring him information which the autocrat just would not receive.

To me this is the major reason for democratic leadership. Of course, group thinking often brings up better suggestions than individual thinking and this is the area which seems to be stressed generally by writers who are proponents of the democratic leadership idea.

My own feeling is that too many people who write about these subjects never really try practicing what they preach. If they had, I am sure they would realize that there is no such thing as democratic leadership, for in the final analysis the boss makes the decisions. Your article indicated that you understood this very well and again I say thanks for a new concept.

J. M. WALLACE
Manager, Meter Division,
Westinghouse Electric Corporation,
Newark, N.J.

. . . Don't NEED autocrats

Re: Eugene E. Jennings to the contrary notwithstanding, the last thing business needs is a "mature autocrat."

Business needs autocrats like science needs idiots. And labels like "autocrat" even less. It is not the business of this plea to determine what business needs. It is our business to call for a greater sense of responsibility when dealing with dynamite. And loaded labels are dynamite when people's lives are affected.

Administrators need to learn that members of their staff can help them if they have a chance to comment on what is being done. It is not the responsibility of the staff to make decisions, however, for that is by definition the leader's job.

Administrators need to be moral, ethical people who realize that they are dependent on their employes for best results, and who use the knowledge that has been developed about people working together to provide an atmosphere that is conducive to top performance.

J. ALAN HANSEN
Research Coordinator,
Employe Relations Dept.,
Northern Natural Gas Co.,
Omaha, Neb.

. . . Vote for autocrats

I think it is one of the few clear-cut presentations describing the terrible state of affairs that many companies have drifted into. It has been my feeling for a long time that the democratic or committee type of management was made up of groups that either did not want to take the responsibility of management fully, or groups that were enchanted by the mechanics of the process more than by the realization that result and ultimate profit is the true objective of business.

R. S. FRIES
Manager of Operations,
Appliance Controls Division,
Minneapolis-Honeywell Regulator Co.,
Gardena, Calif.

Hot issue

Although I have been an admirer of yours, and still am, I want to take issue with your editorial (The State of the Nation, by Felix Morley, September issue). Your charge against "educationists" is like saying "women are poor drivers." Isn't it a glittering generalization? There are more than a sprinkling of dedicated administrators who have stubbornly

held the line for the kind of educational program you champion.

JOHN W. HAROLD
Superintendent of Schools,
Cedar Falls, Ia.

The State of the Nation by Felix Morley is excellent. The public educational system needs a good airing.

ROBERT L. WENDT
Ass't. Professor of Sociology,
Salem College,
Winston-Salem, N.C.

My complaint is [directed] at NATION'S BUSINESS for permitting a lop-sided, biased and incomplete report to reach your many thousands of readers.

WILLIAM H. FULLER
Huntington Woods, Mich.

I want to congratulate you and Mr. Morley on the good sense shown in his discussion of the educational problems facing us.

WALLACE BETTS
J. J. Barnes, Inc.
Angier, N.C.

What do unions want?

Your excellent journal provides much interesting reading; however, I find myself more perplexed with each issue.

What are the labor unions after? What is the ultimate goal so far as wage increases are concerned? No one seems to say. Perhaps no one knows. I have never seen a statement by a labor leader that would throw any light on the question.

Of what value is it to earn $2 when it will purchase only $1 worth of goods? Evidently labor unions have one kind of economic theory and the world in general another.

If some organization could analyze the objectives of the labor movement it might not be pleasant reading, but at least some of us would know where we are heading. At present it looks like chaos and anarchy all rolled into one.

V. A. FENN
Reading, Pa.

Right to work

Your comprehensive report "Right-to-Work Trend Faces Test" was read with interest in our office. However, you mention that three states have repealed right-to-work laws. We are well aware of the repeal in Louisiana, but we were not aware New Hampshire and Delaware had passed such a law.

WALTER H. KEMNITZ
Indiana Right To Work
Committee, Inc.,
Indianapolis, Ind.

▶ *Delaware's "Little Taft-Hartley" Act, making it unlawful to demand a contract requiring employes to join a union, was repealed in 1949, as were New Hampshire laws restricting union security agreements.*

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✓ WATCH THIS ISSUE

Where tax change can come in '59

RECENT APPEALING proposals—though they are normally abundant in pre-election seasons—may have led some businessmen to believe dramatic tax reduction is assured next year.

It isn't, though spadework for some technical revision that will affect particular industries can be expected.

Without doubt the usual number of tax bills will be introduced when Congress assembles in January. Some will propose to lighten the tax burden on business. Rep. Richard M. Simpson of Pennsylvania, a ranking Republican on the Ways and Means Committee, for instance, told NATION'S BUSINESS he will introduce a measure to lower the 91 per cent maximum rate on individual incomes, reduce the 52 per cent corporate income rate, lower the capital gains rate and cut some excise taxes.

Other members of this tax-writing committee also have promised to push bills to stimulate business and the economy. Antoni N. Sadlak of Connecticut and A. S. Herlong, Jr., of Florida, plan to offer bills to reform taxes as well as reduce the budget deficit over the next several years in line with a formula tied to economic growth resulting from the reductions.

Other measures will be aimed at pleasing special interests and giving special preferences to all manner of taxpayers at a multibillion dollar loss to the Treasury.

But by this time next year, the corporate, individual and excise rates probably will be substantially the same as they are now, with possibly these exceptions: A new formula for taxing life insurance companies may be devised next year. Hearings before the Ways and Means Committee are scheduled for this month. Chairman Wilbur Mills of Arkansas has said the purpose of the hearings is to get information on what might be the best formula for taxing life insurance companies on "a total income approach" and get ideas on alternatives to formulas based on the investment income of these companies. Under federal law, life insurance companies are paying a tax which amounts to around 11 per cent of their income from investments.

The federal tax on gasoline may be increased from two cents a gallon to 3½ cents to pay for higher costs of the highway building program if Congress decides it wants to keep the highway program on a pay-as-you-go basis. A deficit of $1 billion in the Highway Trust Fund is forecast by fiscal 1961 unless the tax is increased.

Perhaps tax deductions will be allowed for funds set aside by self-employed people for their retirement. Maybe more rapid depreciation will be permitted on capital investments to take account of increasing obsolescence and inflation factors. A few excises may even be reduced.

Representative Mills has suggested that his committee, which must initiate tax changes, will probably consider revision in the complicated areas of corporate distributions and adjustments, estates and trusts and partnerships.

The committee may also make changes in present laws governing net operating losses, which are transferable to other companies in mergers and may be used to offset profits of the more successful partner of a corporate marriage.

It may also decide to limit the use of capital gains treatment, revise depletion allowances and review the tax treatment for cooperatives.

Hearings scheduled by a Ways and Means subcommittee in December may develop ideas for new tax laws to encourage private investment in foreign countries.

But general reduction, reform or broad tax changes are highly unlikely next year for these reasons:

The budget deficit. The anticipated $12 billion deficit in the federal budget inevitably looms in the minds of most members of Congress as a barrier to tax reduction.

Even though the economy now is headed upward and more revenue is expected to flow into the Treasury

TAX CHANGE
continued

as business profits and incomes rise, the Budget Bureau figures that a balanced budget cannot be achieved before fiscal 1961 at the earliest.

In recent years, a budget surplus has been the prerequisite for major tax cuts as a matter of policy voiced by the Senate-House Economic Committee and the Eisenhower Administration. Income tax reduction that could not be made out of budget surplus was held to be permissible only in the event of recession that necessitated the economic stimulant of tax reduction. But even recession—and recession in an election year—couldn't bring Congress to reduce taxes this year, except in comparatively minor and piecemeal fashion.

In view of the budget position and the need to borrow so heavily to meet present government obligations at a time when money is getting tighter, a further reduction in revenues would help feed inflation, many economists believe.

The next Congress. The Eighty-sixth Congress, which is expected to lean toward more liberal legislation than ever before, in all probability will increase, rather than decrease, federal spending. Attempts may be made at the same time to cut taxes or revise the tax structure so as to give lower-income voters benefits while increasing the burdens on business and higher income bracket citizens.

The men who will have the most to say about future tax policy, in addition to Mr. Mills, include Treasury Secretary Robert Anderson, who won out with his hold-the-line policy on tax cuts this year, and the Senate and House leaders.

They, plus public sentiment, will serve as a steadying force against any wild schemes to boost taxes which may arise in Congress.

Many members feel that even present tax rates are confiscatory. They submit as evidence the declining rate of national growth as measured by gross national product. It averaged only 3.8 per cent a year from 1947 to 1957, and during the latest five years, averaged only 2.9 per cent annually. This is in contrast to the Russian economy which is driving ahead at the rate of around seven per cent a year.

War threats. As one of our military leaders recently said: We are now being tested at every point in our perimeter of defense by the communists, and this will continue. Without doubt, high defense spend-

(continued on page 21)

GO FORD-WARD

TAX CHANGE
continued

ing will be continuing policy. Recognition of this demand on our revenue sources would cause most members to hesitate to reduce federal income at this time.

Records made and still to be made. Another factor that would act against major tax reduction next year is the $850 million cut Congress made in taxes this year. This is a thin slice compared with some tax cuts of the past. But the revisions eased the burden and adjusted some hardships in several of the more grievous areas.

For example, excise taxes on amounts paid for transportation of freight and coal and transportation of oil by pipeline were repealed. This alone will cost more than $500 million.

Under another change, net operating losses may now be carried back for three years rather than two years. Corporations with not more than 10 stockholders may elect to have their corporate income taxed to them personally if this is more advantageous.

A first-year allowance of 20 per cent depreciation is permitted on equipment and machinery costing up to $20,000 for a joint return. Corporations may now accumulate earnings up to $100,000 without tax penalty, instead of the former $60,000 limit.

A fully deductible loss, instead of lower capital loss, is permitted on sale of stock in small business corporations, including small business investment companies, a new kind of institution provided for in another law passed this year. And estate taxes on closely held businesses may now be spread over 10 years. These are examples of changes enacted this year that have widespread effect for business.

Many more technical amendments were adopted that carried special impact for the interests or industries affected.

In the final analysis, major tax reduction—if and when it comes—will be much more likely in election year 1960 rather than in 1959. Such legislation would be fresh in the minds of the voters if Congress waits until then.

Meanwhile, in view of the increasing concern over our complicated federal tax structure, Congress may well consider appointing a study committee to evaluate our entire tax policy and the interrelationships and effects of present and potential taxes on tax sources. END


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The state of the nation

Halting inflation is Congress' first duty

THE MOST IMPORTANT single issue to confront the incoming Congress is clear. It is Inflation. The word should be spelled with a big "I," for the danger it represents affects every individual in the United States.

Rapid business recovery, encouraging though it is, in one respect sharpens the inflationary problem. That recovery, unquestionably, has been stimulated by governmental spending. But increasingly, this fall, it has become apparent that there is a shadow side to any prosperity induced by profligate public expenditure. Governments, no less than individuals, must have money before they can spend it. And the raising of the funds so lavishly appropriated by the latest Congress is becoming steadily more difficult. That will again be emphasized when the Treasury must once more refill its empty pockets, in only a few weeks time.

The past Congress could readily raise the statutory debt limit—to its present astronomical level of $288 billion. It is proving far more difficult for the Treasury to find the money for authorized expenditures, at least without exceeding the 4¼ per cent interest rate which is the present ceiling on government bond issues. Refunding operations must be continuously sweetened, as shown by the generous terms offered for ready cash in late September. And the breathing spells between the recurrent headaches forced upon him become shorter and shorter for hard-pressed Treasury Secretary Anderson.

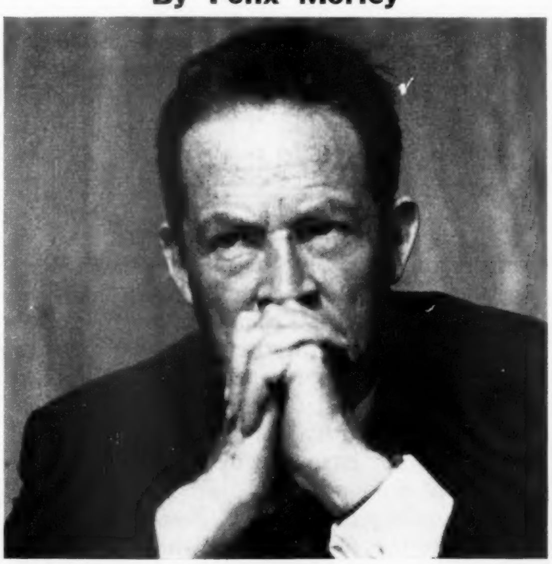
• • •

Many people do not seem to realize that approximately one half of the Treasury's marketable securities now fall due within a year, as against a proportion of less than one third for such short-term debt only three years ago. This hand-to-mouth financing has come to mean almost monthly refunding, merely to meet current expenses. As long as these consistently exceed income, the terms for borrowing will grow more exacting. Spendthrifts must expect to pay high interest rates, as long as alternative investment is open to lenders.

The evidence of what is happening is apparent in the dislocated security markets. During the late summer and fall the market for Treasury bonds has been so thin—so "hectic" and "troubled" as the officials there say—that the Federal Reserve has been forced to give support, regardless of the inflationary implications of its intervention. At the same time the stock market has been pushing up at a pace which bears no relation to present or prospective profits. Only the uninformed can any longer fail to draw conclusions from evidence which 10 weeks ago forced Senator Byrd to predict certain disaster, without a change of course which has not come.

What we are witnessing, in plain language, is the beginning of a flight from the dollar—into forms

By Felix Morley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TRENDS continued

of ownership which people believe will retain value better than the green paper slips whose purchasing power needs more support than is given by excellent steel engravings of former Presidents.

• • •

Most of these Presidents, not excluding reckless Andrew Jackson, would have been appalled by what one monetary authority now calls "the greatest inflation that has ever existed in the United States." The ultimate remedy, says Paul Bakewell of St. Louis in his current, easily read study of inflation, must be a return to the gold standard and free convertibility of greenbacks into gold. He points out that Washington fully recognized this when it used "a part of our gold to put Western Germany on a gold standard as a means to her restoration and recovery." It is indeed ironic that as a consequence the people of the German Federal Republic are today buying and selling American gold freely while we, like the Germans under communist control, are forbidden to do so.

Our so-called managed currency is of course an essentially communistic device, designed to eliminate that automatic check to inflation which was so long and so efficiently provided by free convertibility to gold. But we have now slid so far into the bog of depreciation that to return to firm ground at a single step is no longer practical politics. In more graphic metaphor: You cannot stop a runaway train by a sudden application of full braking power, even if all warning signals are being disregarded and an open drawbridge lies only a short distance ahead.

The more practical action is to prevent the present inflationary momentum from increasing.

For this minimum security measure the incoming Congress has inescapable responsibility. Yet even this is difficult, because financial debauchery has already gone so far. It certainly will not be accomplished unless the new Congress is influenced by resolute and courageous business leadership.

The administrative departments, we must remember, are essentially spending agencies. Each has its own specialized work to handle and each quite naturally requests appropriations to do this assigned work in an unrestricted manner. One cannot expect the Secretary of State, for instance, to worry about the cost of the foreign policy he directs. On the contrary, his concern is to see that his policy is not hampered by what he is certain to call false economy. To adjust the spending of this and other departments to over-all considerations is, in the first instance, the duty of the Budget Bureau. That agency, however, is helpless unless the Congress stiffens the economies it suggests. In the last session many appropriations ran far above the budgetary recommendations, which is one reason why the Treasury is in such serious difficulties now.

What is clearly needed, as an immediate counter to inflation, is decidedly not the bipartisan foreign policy so frequently urged by Secretary Dulles, but much more a bipartisan fiscal policy in behalf of his less demanding and less loquacious colleague, Secretary Anderson. In the field of international relations there is plenty of room for differences of opinion, and therefore need for constant, critical, congressional review. But it is no longer possible to debate the absolute urgency of curtailed governmental spending. The rapidly developing flight from the dollar is the proof of that.

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The political campaign now concluded has followed the traditional, easy-going pattern. Few, if any, candidates have warned their constituents of the "blood, sweat and tears" which was all that Winston Churchill would promise his people during their greatest crisis. On the contrary, the assurances of our prospective lawmakers for the most part again have been on the something-for-nothing order. They have further cultivated the illusion that the federal Treasury can continue to transmit unlimited purchasing power to the voters, like manna from heaven.

Expenditure for the current fiscal year is scheduled at $7.3 billion more than that for fiscal '58, while revenue is now estimated at $2.1 billion less. Under one third of the increase is going to additional defense expenditure. Price-support payments to farmers actually account for more of the increase than does the intensified defense outlay.

So it is high time to realize, before we are absolutely forced to do so, that the money for such easy distribution is not only lacking, but also can no longer be raised except at an increasingly prohibitive price. Taxes are already at the point where returns diminish, and few, if any, economists now believe that national productivity can increase fast enough to rival the pace of present and prospective governmental spending.

Therefore the alternatives are clear. Either the drain on the Treasury must slacken, or it will be met by the emission of constantly deteriorating dollars. This last is the disaster on which the Kremlin is undoubtedly betting. And when a national disaster is so clearly threatened, the obvious duty of the Congress is solidarity against it. As the current refunding operations show, we are in the danger zone where a bipartisan fiscal policy, backed by all who have any interest in posterity, is not merely advisable, but essential.


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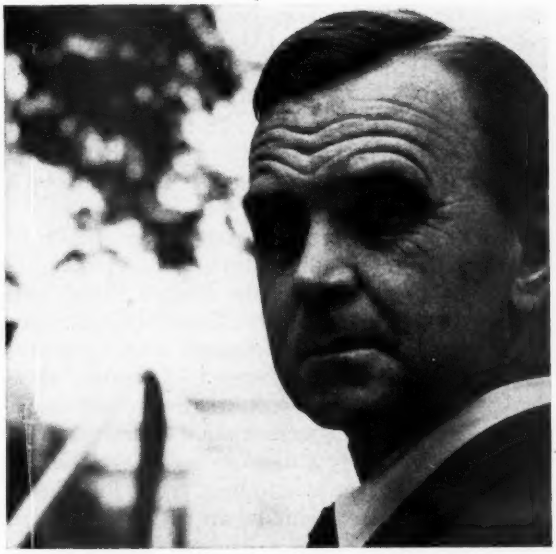
Washington mood

Washington expects hard talk but no war



By Edward T. Folliard

SOME YEARS AGO, a British newspaperman in Moscow, baffled in his efforts to understand the Kremlin's diplomacy, said that there were no experts on Russia, only varying degrees of ignorance.

This was clever but something of an exaggeration. Still, it is true that the Russians, especially Nikita Khrushchev and the other top men, continue to puzzle Americans. Also, they are full of surprises.

For example:

The Laurel race track, in Maryland not far from Washington, puts on a race every Nov. 11 called the International. It is a mile-and-a-half race run on the grass, and the purse is $100,000. As the name implies, it is a test in which crack thoroughbreds from overseas run against America's best.

Eight countries have been represented in the International since it was inaugurated in 1951, and the entries have included Queen Elizabeth's Landau, Sir Winston Churchill's Le Pretendant, and Prince Aly Khan's Rose Royale II.

About four months ago, Joseph T. Cascarelle, executive vice president of the Laurel track, played a long shot as he was preparing for the 1958 International. He wrote to the Soviet ambassador to the United States, saying that Laurel would be happy to have the Soviet Union send over thoroughbreds for the big race. For a time there was silence, with not even so much as an acknowledgement of his letter.

Then to his astonishment, on Sept. 23, Mr. Cascarelle got a letter from the Soviet Embassy signed by G. Volkov, counselor. It said that the Soviet Minister of Agriculture had accepted Laurel's invitation, and added:

"A Soviet horse-racing team of five people, with two horses, will take part in the International at Laurel."

The fact that Russia would even discuss the entry of these animals, descended from thoroughbreds once owned by the Czars, was regarded as significant. It was another sign that the Iron Curtain is being raised; not much, maybe, but little by little, and sometimes in surprising ways.

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The incident also points up an anomaly. There has been more visiting back and forth between American and Soviet citizens in 1958 than ever before; and yet, despite these efforts at a better understanding, the exchanges between the Kremlin and the White House have grown ever more savage and bitter.

The result has been a wave of concern over American-Soviet relations, with some fearing that there can be only one consequence—war.

It can be reported that nobody in high place

TRENDS continued

here in Washington—that is to say, nobody in the White House, the State Department or the Pentagon—shares this worry. Yes, they say, there could be what military men call a brush-fire war, but as for a World War III, a holocaust that would bring a storm of nuclear bombs and missiles down on Russia and the United States—well, they just can't see it.

Perhaps the best evidence of this lies in the conduct of President Eisenhower in the past five months. Twice in this period he has taken actions in the face of loud and angry warnings from Premier Khrushchev—first in sending Marines to Lebanon in the Middle East and then in announcing flatly that American fighting men would be used, if necessary, to keep Red China from taking over the offshore island of Quemoy.

The last thing that President Eisenhower wants is a great war. He thinks such a conflict would be insane. As he put it in 1954: "Since the advent of nuclear weapons, it seems clear that there is no longer any alternative to peace, if there is to be a happy and well world."

It is sometimes forgotten, but it was the President who laid the groundwork for a greater exchange of visits between the United States and Russia. The occasion was the Summit Conference at Geneva in 1955. He proposed then to Khrushchev and Bulganin that there be a greater "visiting back and forth" between the two countries.

The idea was, of course, that if Americans and Russians—ordinary citizens as well as officials—could see each other face to face, get to know each other better, there might be an easing of tension and a better chance for a live-and-let-live understanding.

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The visiting back and forth has been in full swing this year. American journalists have been going to Russia in unprecedented numbers, and getting permission to see places never before opened to foreigners. Cyrus Eaton, 74-year-old Cleveland banker and industrialist, visited Moscow and Leningrad, with his wife. Adlai Stevenson, two-time Democratic nominee for President, made a four-week tour of Russia, covering something like 7,000 miles.

Plain American tourists have gone to Russia, some of them with their wives and children.

The Russians stepped up their travel to this country, too. Hardly a week has gone by when there have not been visiting Russians in Washington—scientists, farmers, students, athletes and trade experts.

What has come of it all?

Cyrus Eaton talked to Premier Khrushchev and later described the Soviet boss as a "lover of peace."

Mr. Stevenson, who also talked to Khrushchev, had no such thing to say about him, but he went all out in his praise for rank-and-file Russians, describing them as friendly, courteous, and obviously eager to know Americans better. News reports said the Illinois statesman was applauded wherever he went in the vast land.

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In the meantime, and in sharp contrast to the cordiality of Ivan the ordinary Russian, Premier Khrushchev has gone farther than Stalin ever did in hurling epithets and warnings at the United States.

He called the United States an "aggressor" when the President sent Marines to Lebanon. He demanded that the United States withdraw all its armed forces from the Formosa area, saying that unless it did, Red China would be forced to bring about their "expulsion"—and this with Russia's support.

Russian newspapers have likened President Eisenhower to Adolf Hitler, blithely forgetting how he was acclaimed as a mighty hero when, at Stalin's invitation, he went to Moscow after VE-day in 1945, and was awarded the Order of Victory and the Order of Suvorov.

The President, for his part, has accused the Kremlin of using violence, terror and murder as instruments of international policy.

Yet there is no thought in high government circles in Washington that a great war will result from all this. The language of diplomacy has changed violently in our times. Some of the insults that now fly back and forth across the ocean would surely have led to war in the old days, when nations drew the sword to uphold their honor. The A-bomb and H-bomb have made the difference.

Adlai Stevenson once made an observation about the Russian leaders that was quoted here and is worth quoting again: "It is fortunate that the adversary in the atomic age is totalitarian Bolshevism rather than totalitarian Nazism. The latter, personified by Hitler and unthinkable without him, was suicidally romantic and naively irrational. There is good reason to believe that the Kremlin resembles the bookie more than the gambler. It will calculate the odds. It will take risks but it won't risk everything."

Anyway, President Eisenhower and his lieutenants believe that the Russian leaders are just as thoroughly convinced as they themselves are that a great war in this nuclear age would be mutually suicidal, and must therefore never be allowed to take place.

1.

"We need fresh blood," Jack Richter pined, "I'll try my alma mater;
Unless we get some smart young men my company will totter."
Poor Jack—he offered cash—advancement, opportunity.
But big firms topped him—*they* could grant insured security.

2.

A kindly Travelers man saw Jack in need of reassurance,
"Get major medical and pensions, life and health insurance."
Cried Jack, "My firm is small—I've only twenty men employed."
"We have a plan!" said Travelers' man, and Jack was overjoyed.

3.

Jack braced and faced his next young man with utter confidence;
The cream of Fifty-Nine he was, of keen intelligence.
"I offer money, challenge—Travelers' guards from worldly tensions:
I promise Major Medical, Group Life and Health and Pensions!"

4.

The college boy went in with Jack, who'd signed a Travelers plan:
"My manhunt is successful now—all thanks to you, good man."
With Travelers *you* can match the giants in your talent search—
Why, with as few as ten* employed you're solid as a church!

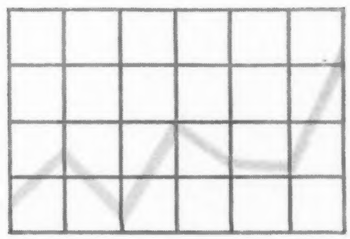
AMERICAN FAMILY INDEPENDENCE THROUGH THE TRAVELERS

THE TRAVELERS
Insurance Companies
HARTFORD 15, CONNECTICUT

*Minimum of 15 required in Florida

All forms of business and personal insurance including Life • Accident • Group • Fire • Marine • Automobile • Casualty • Bonds

CHART FUTURE EXPANSION NOW



With the economy turning up, businessmen will need to consider these factors in their decisions

THE BUSINESS MOOD and moment demand immediate and vital judgments on how quickly, in what ways and by what means companies should shift into higher gear.

As economic indicators jut upward and optimism surges back, companies that are lean and sinewy after months of slump are ready and eager to expand. Their managers are impatient for action. Even organizations which escaped the full force of the late recession probably will adjust their short-range plans to fit the nature of the upswing.

Those executives who remember that mistakes as well as advances can result from bold, sweeping decisions can be the smart expansionists in the months ahead. Executives, consultants and economists interviewed by NATION'S BUSINESS are advising managers to consider these factors in making today's and tomorrow's decisions:

1. The lessons learned during the downturn.

2. Present and future potential of personnel, facilities and techniques.

3. Psychological elements affecting themselves and subordinates.

4. Availability of escape valves for risky decisions.

5. Long-term trends that will be the backdrop for present operations.

"We weren't in the recession long enough for the good policies we adopted to have become habit," one top manager told NATION'S BUSINESS. "We could get flabby again pretty quickly."

"I'm a little suspicious about all this confidence. A lot could happen before there's another real boom," said another executive.

Such caution was expressed over and over by industry managers and consultants. Though many executives are determined to keep the reforms and remember the lessons learned in the past year, one pessimist notes: "If we do, it will be the first time in history."

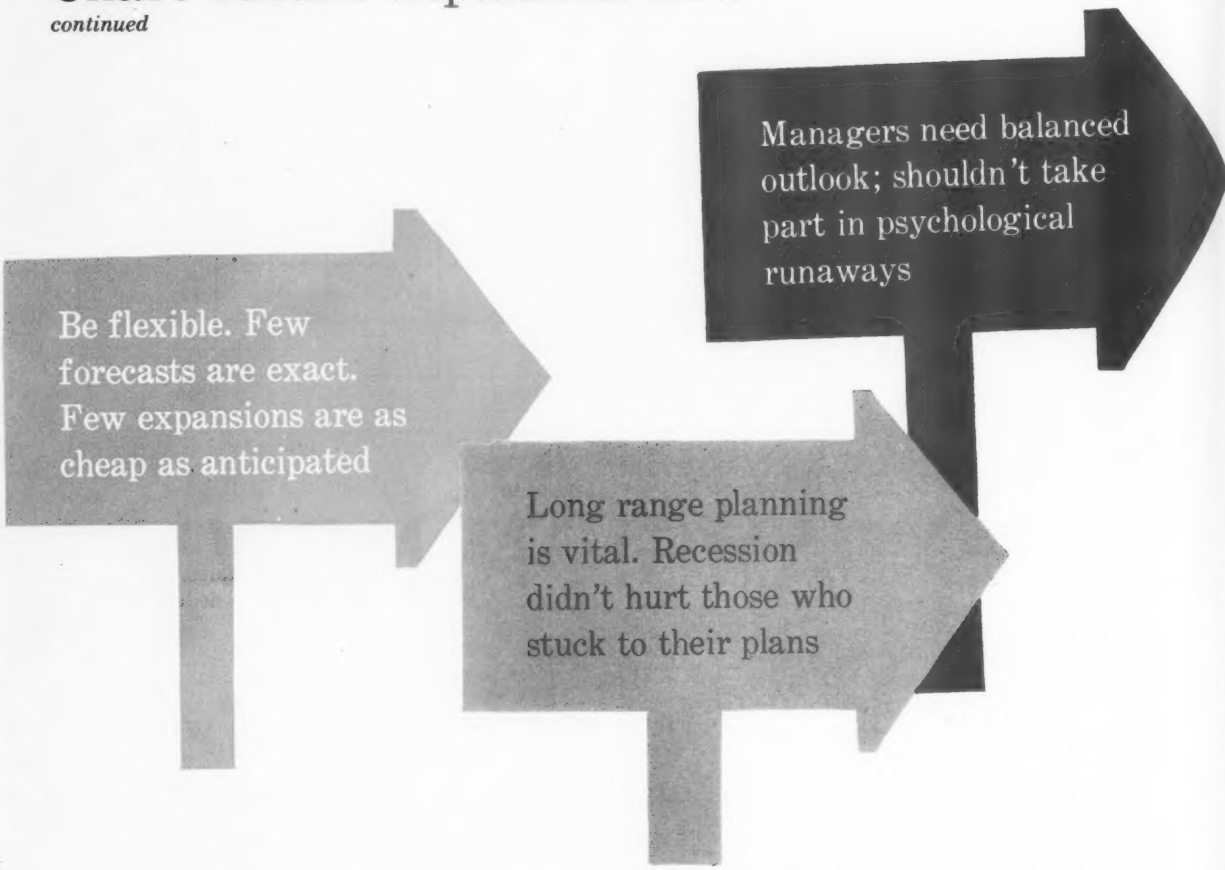
Most recession-hit companies developed broad cost-reduction programs, re-examined systems and procedures, weeded out inefficient personnel and programs. Many concerns began to develop greater control over their decentralized operations through central data processing of financial, sales and other information.

Some firms also made drastic cuts in employment and operations that may have to be restored. Some initiated competitive customer services that will be highly expensive to maintain.

Some firms slashed inventories so deeply that lately they have lost business by being unable to fill present

Chart future expansion now

continued



orders. They are now having to replace their stocks at higher cost and with capital they are borrowing at higher interest rates. Many companies postponed or reduced their planned capital expenditures, though in many cases they will now put in place new equipment at higher prices.

Dr. Pierre A. Rinfret, vice president of Lionel D. Edie & Co., Inc., notes that "Capital goods prices have gone up at the rate of about 4.5 per cent a year for the past decade. Even during recessions there's some rise. So every year you delay on capital expenditures, the cost of the lost momentum averages more than four per cent."

Many buyers are now used to having the manufacturer do their warehousing for them. Manufacturers may have trouble getting their customers to buy large orders and stock the material themselves as they did pre-recession. This hand-to-mouth buying would mean more warehousing expense, inventory and distribution problems for manufacturers.

"People failures," says E. Everett Smith, a McKinsey & Company director, "were the main causes of the recession. This should teach companies to make sure of their means for evaluating people."

Coleman L. Finkel, marketing division manager of the American Management Association, Inc., notes that companies which were sensitive to the needs of the buyer were more successful than those which were not consumer-oriented. "The emphasis will be on customer-oriented marketing from now on," he predicts.

Richard M. Paget, of Cresap, McCormick and Paget, comments: "The recession scared a lot of people, but those who did capable long-range planning and stuck to their plans weren't in such bad shape. Certainly the most important thing to do as business gets better is to develop long-range strategic planning and planning procedures."

Present and future potential

As the economy picks up, top managers are sizing up their over-all operations in a new light. They are looking at the strengths and weaknesses, the potential for expansion and appropriate policies to follow.

Marketing activities are commanding most attention. The guiding concept that will be needed in the months ahead, says John Sargent, of Cresap, McCormick and Paget, is marketing strategy which involves a state of mind as well as effective organization.

"It is imaginative marketing activity in planning, organizing and execution. It has a central theme and objectives that are known and understood throughout the company."

To guide management in its marketing strategy, early and accurate sales forecasts and market interpretations will be essential. One company is directing its salesmen to make special calls on all its key accounts

to get the best possible outlook as to the business these customers expect and what forecasts they are making.

Sales managers will be looking carefully over the records of their men during the past year to see which salesmen used their imagination and initiative and which put all the blame for lower sales on the recession. Sales quotas also will need to be revised in the months ahead to take into account potential sales volume increases. Compensation arrangements may need to be changed, too.

In the focus on marketing activities, renewed emphasis will be placed on sales training, review of advertising media, advertising and promotion research. Past and current inventory-sales ratios will also be examined.

Though techniques have advanced in surveying, depth interviews, organized observation and distribution studies, controlled experiments and market testing, the marketing man has a long way to go in predicting all his customers' wants.

A market research executive for an automobile manufacturer, for example, was expected to forecast the sales volume for a special high-priced model. He knew and informed his superiors that techniques aren't accurate enough to predict what they wanted to know, but he took a guess. Orders already have more than doubled his guess. Greater research in consumer preferences is inevitable.

During the recession, a number of companies launched new products and new services. Other companies, which follow the philosophy that a new product will sell better in an upturn, postponed introduction but now are readying their new ideas for the market.

Decisions on new products or services often create market forecasting, sales training, distribution research and promotion problems.

In the office as in the field, top managers are appraising their people and facilities, particularly in view of rising office management costs, increasing automation and the need for better controls and information. In any decisions to buy new office equipment, managers should be concerned with the job to be done rather than with getting new equipment and trying to fit it into their operations, advises Robert M. Gleason, AMA's Office Management Division manager.

Regarding new plant and equipment, a capital expenditure is probably wisely made if the purchase cuts unit cost of production or prevents it from rising.

Also to be considered, says Dr. Rinfret, is the prospect for upturn in your industry and whether the addition will result in added excess capacity.

Federal tax revisions Congress enacted this year encourage equipment expenditures. An additional 20 per cent first-year depreciation deduction is permitted on purchases of up to $10,000 in new machinery and equipment; on a joint return, $20,000.

Though excess capacity and adequate personnel are common today, the manager looking ahead will realize that critically needed men, materials and equipment will undoubtedly be less available and more costly as the months go by. The same is true for short-term money. As inventories are built up, the demand for capital and the Federal Reserve's determination to fight inflation mean higher interest rates.

Unquestionably the most important ingredient in the present and future operation of your business is management. Effective appraisal and evaluation of managers is essential to make sure you match the men to the company's long-term goals.

One consultant asked a corporate president what means and standards he used for judging his men. The president replied that his grading system comprised one yardstick: quarterly net profit statements.

In contrast, another large corporation recently established a six-man task force to make depth interviews and analyses of all its managerial people to see how they are getting results and developing their subordinates. The president is so awakened by the revelations that he is making the task force permanent and revising many of his promotion assignment plans.

Psychological elements

"A basic stampedability exists in our economy," comments Dr. Francis Bradshaw, veteran psychologist, educator and consultant with Richardson, Bellows, Henry and Co. "There's a psychological instability in the extent to which we're influenced by styles and fads. I'd advise managers not to participate in starting another psychological runaway. What is needed is balance in our outlook."

Other managers point to stock market prices as evidence of inflated optimism. *(continued on page 52)*

YOU CAN SHARPEN YOUR THINKING

New research findings point way to avoid "Gamblers' Fallacy," make better decisions

NEW FINDINGS in psychology shed light on ways to sharpen your management thinking and give your decisions more impact.

Studies of human behavior by the Applied Psychology Research Unit at England's Cambridge University have shown that we all share a dangerous tendency toward pattern-thinking—that is, we base our judgments on past facts that may no longer be accurate.

Application of these findings to business situations by the Research Institute of America is resulting in approaches that already are yielding important benefits in a broad cross-section of companies, both commercial and industrial.

Researchers at Cambridge conducted experiments to learn what happens to a man's judgment when he faces comparable situations repeatedly—in this case the specific problem of personal risk-taking.

The experiments took various forms. In one, the group worked with experienced London bus drivers. They set up wooden poles at distances one foot wider than the bus and challenged the drivers to move their vehicles through without touching either side. The men hesitated at first, often coming to a stop and then inching past.

But as the same problem was presented repeatedly, they breezed through without a pause. Bit by bit, the opening was narrowed until only hairbreadth clearance existed. Yet the operators continued to speed through.

In another test, researchers followed motorists along country roads to study their behavior at ungated railroad crossings. Most drivers crept over the first set of tracks. A few stopped. Gradually each one let his caution decline. After going safely through three or four crossings, the average driver sped past the other danger points without hesitation.

These and other controlled observations enabled investigators to chart a definite decline in reasoning ability that occurs when the same risk has been surmounted many times.

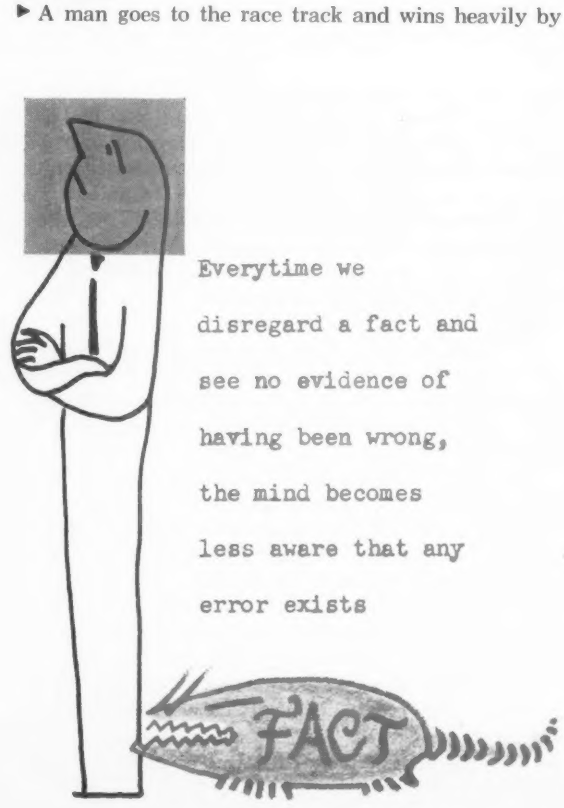
Part of the greater boldness in the bus test, of course, results from the added skill that repeated practice gives. But the variety of experiments left no doubt that a false confidence was the main factor. Its technical name, "Gamblers' Fallacy," reflects the fact that even experienced gamblers who should know better are likely to believe that yesterday's chance results will influence tomorrow's outcome.

Psychologists and sociologists at the Research Institute of America have undertaken to learn how these findings apply to business situations and to develop from them a set of positive principles for managers.

How the Gambler's Fallacy works

Can you see the common denominator in these situations?

▶ A man goes to the race track and wins heavily by



picking the longest shot in each race. On his next visit, he again plays horses with long odds.

▶ Another amateur gambler is less fortunate at the same track because he played favorites on the day when long shots were winning. The next day, he goes back and bets twice as much on the favorites because he's sure the tide must turn.

▶ A production supervisor is asked to cut his unit costs to help meet a competitive challenge. He resists the instruction because he is struggling to train many new employes and rightly feels that this deserves his first attention. The crisis is overcome by improved effort in other departments and the whole thing is forgotten. A year later, the same production man is again told to cut costs. This time, he balks more vigorously and says that it's not his problem.

At a glance, only the first two incidents seem to be concerned directly with gambling; the third appears to be a straight business problem.

Yet all three situations are varieties of Gambler's Fallacy because thinking was warped by occurrences that were not a proper basis for future decisions.

The Cambridge scholars theorize that every time we disregard a fact and see no evidence of having been wrong, the mind becomes less aware that any error exists. For instance, they believe one of the chief reasons why we obey red lights in the city (aside from the fear of being caught by a policeman) is because a stream of cars crossing the intersection reminds us what would happen if we didn't. But since we rarely see a train at a crossing, it is not surprising that the experiments disclosed frequent violations of the "Stop, Look, Listen" signs.

The Research Institute study showed, however, that this fallacy leads not only to the repetition of mistakes. It may be even more common in producing a blind tendency to repeat actions that led to past success. The effects in that case are almost as destructive. A company that has weathered hard times by following a given policy will likely take the same course in another emergency. Organizations that have prospered with one type of distribution set-up will resist any trend that dictates a change.

That, undoubtedly, is one of the reasons why many companies find it harder to stay on top than to get there. The original push was made with a flexible policy. Everyone was ready to make any change that circumstances might demand. Once established, the organization still faces new conditions year after year. But now it expects to make the circumstances meet its own way of operating.

Now that psychologists have related this characteristic of human behavior to the business world, what practical use can you make of it as an executive?

There are two specific areas of application:

▶ First, it will help you to revitalize your own managerial thinking.

▶ Second, you can use it to get more results from the people you manage.

Re-charge your own mind

Just by recognizing the dangerous atrophy that pattern-thinking can create, you will improve your ability to analyze problems incisively and to make sharp decisions.

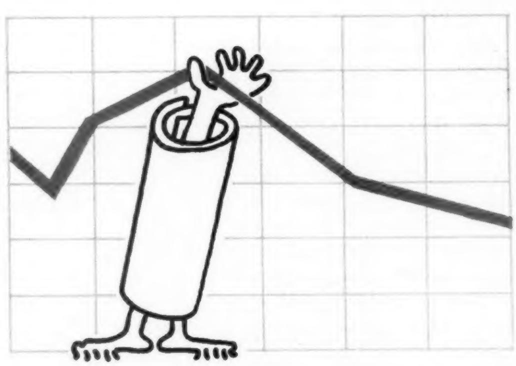
Watch especially for these distortions of judgment that come most often from Gambler's Fallacy:

1. *Echoing fear of past dangers.* One company is still holding much too heavy a cash reserve today because it suffered shaky times in 1931. Fear of running out of money has been passed down from one chief executive to another. Because it is managed by outmoded facts rather than by current logic, it has dropped from first to third place in its industry. Others who are using their capital to improve their service to customers are gaining on it all the time.

2. *Resting on skimpy laurels.* Another manufacturing firm scorned research and development because it had marketed a single product successfully for the past quarter century, while its few attempts to develop new lines had failed. The obvious fact that other companies do succeed with research projects and that even greater success could be had by augmenting the line are completely ignored. A year ago, a competitor introduced a totally new product that threatened to deal this company a fatal blow. It may be able to stay among the leaders, but only because it has signed a patent license agreement on onerous terms. From now on, this organization will be dancing to somebody else's tune.

3. *Dimming of vision to see opportunities.* Countless executives assume that the territory they first exploited successfully is still the best source of business. That same kind of thinking imposes blinders that blot out more and more of the horizon.

One company with a good volume in the pharmaceutical business has developed *(continued on page 73)*



Commonest of all judgment errors is assumption that one prominent factor was sole reason for success

TAX OUTLOOK:

Load can lighten

Projection of the next decade's growth and spending shows the balance that is possible

TAXES CAN BE less burdensome in the next decade.

Federal, state and local taxes rose 48 per cent faster than the Gross National Product from 1929 to 1940 before we were girding for war. These taxes rose eight per cent faster than GNP from 1947 to 1957. (Social security taxes aren't included in these totals.)

Adjustment to this tax bite was difficult and at times interfered with healthy growth. If further increases of even half this magnitude were to occur in the next couple of decades, the economy could be heavily handicapped.

Careful study of government expenditures shows that such an increase is neither necessary or even likely if the citizens are alert to unnecessary tax proposals and if inflation, a hot war, or other serious impediments to growth do not develop.

Citizens need to be alert because two things having relatively little to do with the need for governmental services tend to bring heavier and heavier taxes automatically, even if rates are not raised. Inflation and a rising standard of living create a higher tax take irrespective of the growth of the country or of any need for additional services.

Federal income taxes tend to rise about $15 for every $100 increase in personal income from production. As average incomes rise, whether in real or in nominal dollars, taxes rise more than incomes, unless income tax rates are cut. Inflation has a similar effect. The exact impact, of course, will vary among the groups whose incomes are rising and the impact will be more severe on individual than on corporate taxes.

This tendency for a constant tax rate to result in increases in taxes makes it easier for governments to spend more and more without touching the tax structure. All they have to do is successfully resist pressures for tax reductions, and their revenue rises. This does not mean that their need for revenues rises or does not rise but it does mean that the task of increasing their take from the taxpayer is simplified.

Citizens need to insist on careful planning of expenditures to hold the rise to a reasonable relationship with the private sector of the economy.

The economy grew about 3.5 per cent per year from 1900 to 1950. In the next 25 years the growth could be about four per cent a year, even if the annual rise in productivity should be only $2\frac{3}{4}$ per cent per hour. If productivity were to rise by 3.5 per cent per hour per year, we could grow about five per cent per year.

Among the reasons for the increased growth rate is the record number of births in the past 15 years. More people will be seeking jobs; markets will expand, provided they are not depressed by unsupportable demands from government. Whether such demands are likely or necessary is worth careful attention.

The problem can be simplified if we eliminate service charges* when examining potential governmental demands. The costs for such government services as the post office are being met increasingly by charges comparable to those levied by private utilities. Such charges can be designed to meet the cost of the services rendered with a minimum of interference with free choice in the market place.

Support for such activities as schools, police, and national defense comes increasingly through progressive taxation. Such taxes interfere sharply with the market place. The taxpayer cannot decide to buy more police protection and less education. The price system, which works relatively well in the private market place, works in reverse, if at all, in the field of general governmental revenues.

The more an individual or a corporation makes, the more he must relinquish for general governmental operations, and the less, proportionately, he has left for the market place. At some point it will not pay him to earn more. As this point is approached, his incentives may be changed or weakened. This hurts the economy, in addition to hurting him. It causes him at least to direct his energies to activities which are least subject to taxation.

In examining the need for future increases in taxation we will limit ourselves to this field which hits all

taxpayers whether they use the service or not. This cannot be done perfectly. There are gray areas. For instance, social security payments, old age and survivors insurance payments, pensions to government workers, and similar so-called transfer payments, can be financed by levies paid by potential beneficiaries. Federally underwritten social security payments, as a whole, have been financed in that fashion thus far. But that is no guarantee they will continue to be so financed. Politicians could raise benefits faster than revenues would warrant.

Whether the outlays for this purpose, again barring inflation, do or do not exceed revenues collected to meet them over the next decade is a matter of choice, not of necessity.

Agricultural subsidies are another form of transfer payments even though they are financed largely by general taxation. They have been growing, but this growth may soon slow down—may even stop—for two reasons:

First, the number of farms has dropped 25 per cent and the farm population has dropped a third since 1940. About 2 million of the remaining farms are run on a part-time basis and receive appreciable amounts of nonfarm income. A large proportion of the farmers find that the control programs raise their costs as much or more than they increase their incomes. The larger farms find their acreage allotments so low as to raise a serious question whether they might not have higher earnings if federal controls and payments were reduced.

Consequently the program is being reappraised by farm as well as by nonfarm groups.

Second, the present farm support program was developed to meet depression and war needs. It does not work as well in a time of prosperity. Other approaches better adapted to a high employment economy, such as training of farm labor for nonfarm jobs, retirement of submarginal land, and so on will be pushed more and more vigorously. These newer programs can, after awhile, cost less and less.

So this area of federal outlays should, during the 1960's, become a declining burden on the economy. The net cost of the Department of Agriculture, which now approximates $5 billion, may not exceed $5.5 billion in 1958 prices by 1970, *(continued on page 46)*

GROWTH VS FEDERAL SPENDING

Possible federal outlays in categories financed by general revenues

(In billions of dollars)

	FISCAL YEAR		INCREASE	
	1958	1970	DOLLARS	PER CENT
NATURAL RESOURCES & GENERAL CAPITAL	$ 8.5	$ 11.0 to $ 11.5	$ 2.5 to $ 3.0	30 to 35%
SPECIAL & GENERAL BENEFITS	$ 8.5	$ 12.0 to $ 14.0	$ 3.5 to $ 5.5	40 to 65
GENERAL GOVERNMENT	$ 9.5	$ 10.5 to $ 12.0	$ 1.0 to $ 2.5	10 to 30
DEFENSE	$45.5	$60.0 to $70.0	$ 14.5 to $24.5	30 to 55
UNKNOWN	$ —	$ 1.5 to $ 2.5	$ 1.5 to $ 2.5	—
	$72	$95 to $ 110	$23 to $38	32 to 53%
GROSS NATIONAL PRODUCT	$435	$725 to $750	$290 to $ 315	67 to 72%
SPENDING AS % OF GROSS NATIONAL PRODUCT	15.6%	13 to 15%		

Federal spending will grow

But economy will grow more

WHAT **MANAGEMENT** IS LEARNING FROM **COMPUTERS**

Business is discovering values and limitations of electronic machines. These findings will help you plan

One company makes computer training a must for new managers

ELECTRONIC DATA PROCESSING is having sweeping effects on organizational patterns, effects that management must take into account both in today's planning and in planning for the next five years.

Computer users have already been through two phases:

A starry-eyed period of expectations.

A reappraisal when many buyers found they were in the wrong pew.

Currently they are entering a period of learning what computers actually are and what they will do. They are also learning that management must understand and handle the effects that the new machines will have on human beings.

These effects arise from three aspects of computer use:

- ▶ Computers cut across department lines, reducing layers of management and consolidating functions.
- ▶ They change the functions of middle management.
- ▶ They change the status of rank and file workers.

Accordingly, management is beginning to call in the social scientists for conferences, seminars and private consultations. One such conference will be held soon at the University of Chicago under the auspices of the McKinsey Foundation. Business leaders from companies advanced in the use of electronic data processing systems will confer with social scientists, mathematicians and leaders in communications on such questions as:

How much can we centralize decision-making?

How can we reorganize our departments?

How do we re-structure jobs?

What is the best way of tying specialists, particularly highly trained professional personnel, into the decision-making process?

In answering such questions, says Dr. Carl H. Rush, Jr., employe relations research adviser for Standard Oil (New Jersey), the social scientists have two distinct roles to play:

1. To determine the best ways of adjusting the organization to

realize the full potentials of EDP. "We have not begun to exercise the machines to the fullest capacity," he says, "because of the way our organizations are structured. As functions change and departmental lines break down, our present pyramidal structures will be outdated and new ones will be necessary."

2. To develop policies, programs and techniques to minimize the impact of organizational adjustments to employes. "Industrial relations research can contribute greatly by studying not only what computers can do for us but, perhaps more importantly, what they are doing to us.

"The work forces of the more advanced companies are being altered as a result of integrated data processing," according to Dr. Rush. "Certain types of jobs are disappearing; others have altered radically in content. The nature of supervisory activities is changing. Human effort is being altered considerably and we must keep abreast with the adjustments and alterations that accompany these changes. In solving these problems, social scientists and managers are finding themselves natural partners."

These things are no longer confined to a small minority of large or specialized companies. No business, large, medium or small, is exempt from the competitive challenge imposed by integrated data processing. An estimated 2,000 computers are operating today, with another 2,000 on order. It is estimated that 1965 will see 10,000 machines in business with a dollar volume of more than $2 billion. The dollar volume on the current sale or rental of computers is estimated at $350 million for 1957 and the market is spreading rapidly to smaller companies, many of which are renting or sharing computer services.

A survey of companies most advanced in the use of integrated electronic data processing reveals many significant developments. Let's take a look at some of these changes.

Reducing layers of administration

In many cases, the computer is acquired by the controller since he is already in charge of the punch card equipment and the first applications are likely to be in the areas of accounting and payroll. As soon as integrated data processing spreads beyond the controller's chores, however, other executives get into the act: the production chief, the sales manager, the design engineering manager, marketing, distribution and, with all of these, top management.

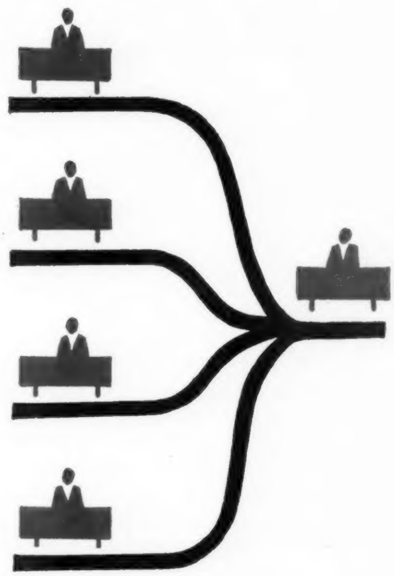
This has gone the farthest where computers have been installed in operating facilities such as plants and refineries.

For example, one large manufacturing company has a data processing center in one of its major plants. The computer fits into an integrated system, the applications of which include payroll, design, main stores inventory, manufacturing information for the shop, including paycard processing; shipping department control over a score of warehouses, and finished goods inventory.

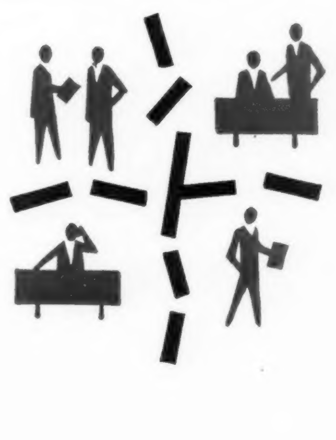
In all these installations, the source information is used over and over. The determination of a delivery date for a new product, for instance, involves inventory control, design, scheduling and payroll.

With such applications, the company's organizational structure must be changed, according to Robert E. Slater, vice president of John Hancock Mutual Life Insurance Company. The basis of the existing structure is departmentalization, he says. With electronic data processing, the paper work functions will all be *(continued on page 62)*

EDP can trim layers of administration



Data will be integrated, dissolving department lines



DRAFT LAW ISSUES: WASTE, UNFAIRNESS

Public reaction and changed military needs make military manpower top task for Congress

REWRITING THE NATION'S military manpower laws will be a priority task when the new Congress convenes in January.

Authority to draft men into the armed forces expires on July 1, 1959. A month later the basic reserve forces statute, enacted in 1955, expires.

Businessmen have a fourfold interest in what Congress does about these laws.

As citizens, they are concerned with providing armed forces that are adequate, both in quality and quantity, to the requirements of national security in an era of rapid advance in weapons technology.

As taxpayers, they are concerned with staffing the armed forces in an economical and efficient way.

As employers, they are concerned with minimizing the disruptive effects of military service on civilian careers, and with avoiding an excessive drain on manpower resources.

As parents, they want to be sure that the draft and reserve programs operate fairly, and that they do not exact unnecessary or unreasonable sacrifices from any young American.

Devising new legislation that meets all of these tests will be difficult. Congress may be tempted to take the easy way out by pushing through a simple extension of the present laws. This temptation must be resisted for two reasons:

1. Peacetime conscription is deeply repugnant to American traditions. It is tolerated by public opinion only when people are satisfied that the draft is necessary and that it is being carried out in a way that is scrupulously fair. Millions of Americans today are not satisfied on either of these points.

2. Radical changes in military strategy and manpower requirements have taken place since the present draft and reserve laws were enacted. In the words of Thomas R. Reid, Ford Motor Company executive who heads the manpower subcommittee of the Chamber of Commerce of the United States, the assumptions on which the 1955 laws were based are now "obsolete."

The basic assumption of the 1955 laws is that the nation's need for trained military manpower can be met only by compelling every qualified youth to serve. It is clearly reflected in the official title of the draft law which is not the "Selective Service Act" but the "Universal Military Training and Service Act."

It places on all physically and mentally qualified men between the ages of $18\frac{1}{2}$ and 26 a legal obligation to perform at least six years of military service. This may be fulfilled by various combinations of active and reserve duty—the armed forces currently offer 34 alternative enlistment programs. Theoretically, any qualified youth who fails to sign up for one of these programs will be drafted for two years of active duty.

The flaw in this universal service plan is that it cannot be applied fairly without yielding far more manpower than the armed services need or want.

A little arithmetic will show why this is true.

In 1955, the number of youths flowing into the draft-age manpower pool was 1.1 million a year. About 300,000 of these were physically or mentally disqualified for military service. That left 800,000.

The armed forces at that time had an active-duty strength of 2.8 million. To maintain this strength, they were taking in from civilian life about 600,000 men a year—through the draft, through draft-stimulated enlistments, and through call-up of reservists.

Congress saw a prospective surplus of 200,000 men a year. So it wrote into the law a program which a House program committee report frankly labeled a control factor over the manpower pool. This is the now-famous six-months-training plan, under which a youth can avoid being drafted by signing up directly in a National Guard or Reserve Unit for six months active duty training followed by several years in drilling reserve status.

Several factors have rendered this plan obsolete.

New weapons, including missiles, have sharply altered military strategy and have reduced the need for massed manpower. The services this year are paring down to an active duty strength of 2.5 million men. This strength can be maintained with a total intake of 450,000 civilians a year, or 150,000 less than were needed in 1955.

The postwar baby boom is beginning to be reflected in the late teen-age groups. The number of youths reaching the threshold age of 18½ rose this year to 1.2 million; by 1960, it will be 1.3 million; by 1965, nearly 2 million.

Finally, the armed forces have displayed a marked lack of enthusiasm for six months' trainees as a source of manpower for the Ready Reserve. Instead of the 250,000 a year authorized by Congress, the services this year took in only 55,000. The largest number they have accepted in any year since the law was passed was 95,000.

The net result of all this has been to confront Lt. Gen. Lewis B. Hershey and his 4,000 local draft boards with an embarrassment of riches. They are trying to enforce a law which envisions universal military service in a period when the armed forces are no longer interested in training every able-bodied youth, even for reserve duty. This dilemma has been solved—if such an expedient can be termed a solution—by rigging the manpower pool.

By presidential order, all youths who become fathers before induction are automatically moved to the bottom of the call-up list. General Hershey can rightly say that they have not been exempted from the draft, because they are theoretically still classified 1-A. But with draft calls running at a level of 10,000 a month, there is no conceivable likelihood of their actually being called. About one youth out of six is beating the draft via this escape hatch.

Two young men out of every six are avoiding service on grounds of physical or mental unfitness. General Hershey suspects that some of them are deliberately flunking the mental examinations which are formulated and administered by the Army at induction stations. The flunk rate will almost certainly show a substantial rise in coming months as a result of a law, passed at the last session of Congress, which authorizes the Army to raise the present passing grade on mental tests. With an abundance of 1-A's awaiting call, local draft boards have been liberal in granting deferments to students and to vital workers in agriculture and *(continued on page 56)*

TOO MANY short-term recruits swamp present and future military needs.

TOO FEW career servicemen are available for the complicated new weapons.

CONSUMER CREDIT IN '59

Trends in income and debt repayment show customers in good position to buy

NEW EXPANSION of consumer credit is coming.

In the year ahead you can expect installment debt outstanding to rise by at least $1.5 billion—to a new high near $35 billion.

As this happens the pace of business will quicken. It foreshadows a new buying wave, particularly purchases of consumer goods.

Predictions of expansion are based on these economic factors:

▶ Much of the credit now outstanding is owed by persons able to pay, and many owe nothing at all.

▶ Personal incomes are rising.

▶ A growing number of businessmen are experienced in the sound use of credit.

Examination of the forces shaping this outlook will offer some clues to consumers' capacity to increase their credit purchases and how they may use this capacity.

Total consumer credit now outstanding is a little more than $43.2 billion.

Of this, $33.2 billion is installment debt. The rest is charge accounts, about $4 billion, single payment loans and other noninstallment credit.

Americans went into debt in 1957 at a faster rate than they paid off. Although rates fluctuate throughout the year, installment credit extended averaged about $190 million per month more than repayments.

This year, however, consumers have been paying off their debts. Repayments are averaging nearly $120 million more per month than new installment credit is being extended.

Now the trend is reversing.

In this, much the same thing is happening that happened just prior to earlier postwar credit expansions when, for several months, consumers were paying off installment debts as fast or faster than new loans were being made.

For example, in 1951 credit extensions rose by $2 billion. But credit repayments rose by more than $4.5 billion. The next year credit extensions zoomed another $5.9 billion while repayments climbed only $420 million.

CONSUMER INCOME BEFORE TAXES:

18 million spending units have $6,000 or more

21 million have incomes between $3,000 and $6,000

18 million receive less than $3,000

PERSONAL DEBT IS DIVIDED THIS WAY:

24 million spending units have no debt

17 million owe between $1 and $500

16 million owe $500 or more

During 1954 installment credit extended rose by $500 million, but repayments rose $2.5 billion. In 1955 installment credit extended increased nearly $8 billion, while repayments rose only $3.1 billion. This brought 1955 totals to $39 billion borrowed, and $33.7 billion repaid. Thus, the debt outstanding was expanded substantially—much of it because of automobiles bought on extended credit terms.

Outlook

New credit extended in the year ahead will rise, the total probably exceeding $46 billion. However, because repayments will remain high—probably close to $45 billion—debt outstanding will not rise as sharply as it did in 1952 and 1955.

Debt outstanding peaked last December at $34.1 billion. The decline since then has been about $1 billion. Now the trend is upward. Chances are that expansion coming at the Christmas season this year will boost the total to last December's level, or possibly a little higher.

After a short contraction early in the new year, the rise will go on, probably surpassing $35 billion outstanding by the year's end.

To understand trends shaping up, an examination of personal consumption would be helpful.

From the peak of a year ago, total personal consumption fell a little less than one per cent—a decline since made up and surpassed. But durable goods sales fell nearly 12 per cent and nondurables fell 1.2 per cent. Consumer expenditures for services, meanwhile, have continued to climb, even through the recession. Today Americans are spending for services at an annual rate of about $5.5 billion more than they were a year ago.

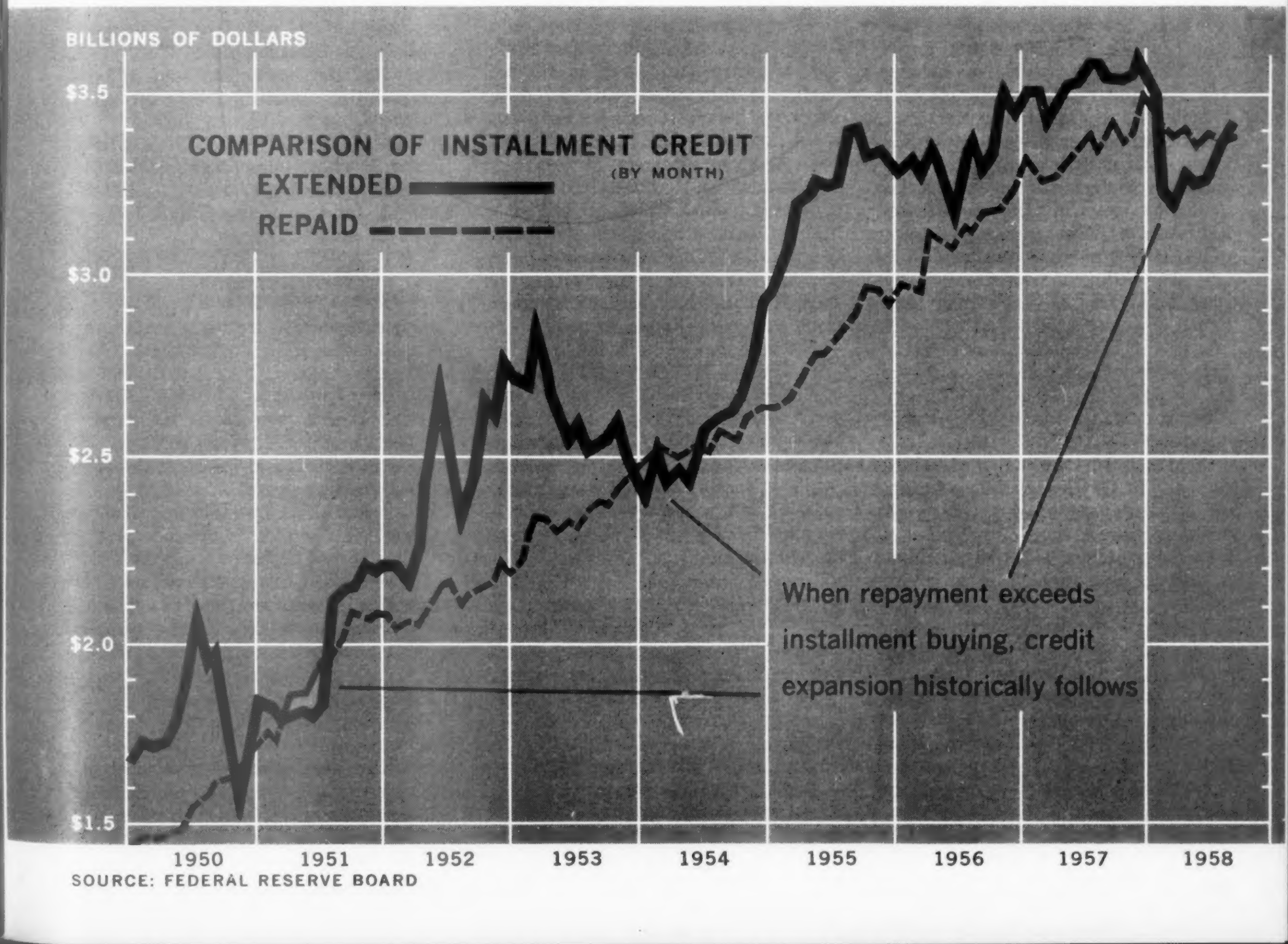
Although the recent business downturn was shorter than most recessions, it was sharp enough and lasting enough to build up some backlog of demand for credit goods—such as furniture, household appliances, automobiles, and so on.

Adding these factors together, outlook specialists predict new consumption records in many lines next year. They look for a rise in all categories of consumer credit, with the possible exception of personal loans, which have risen about $700 million this year and may not change much in the coming year.

The largest rise is expected in automobile debt, which now is $850 million below last December's total. An indication of this is revealed in estimates that about a third more new cars will be sold in the year ahead than Americans will have bought in 1958. Current estimates put 1959 new car sales at about 5.9 million, with foreign car sales accounting for about 400,000 of that total.

Studies show that about 65 per cent of the new cars and 60 per cent of the used cars will be bought on time payments. About 55 per cent of the furniture and major household appliances will be purchased on installment.

The financial situation of *(continued on page 52)*

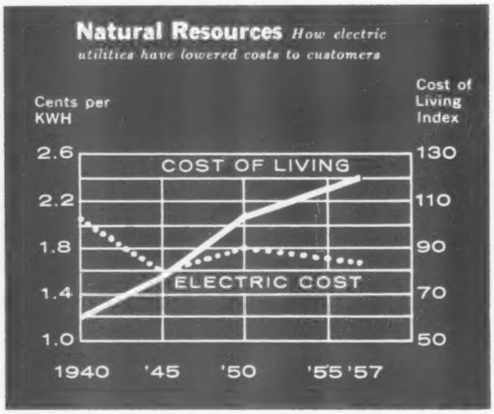


SOURCE: FEDERAL RESERVE BOARD

An authoritative report by the staff of the

HOW'S BUSINESS?

today's outlook



AGRICULTURE

A change is shaping up in the farm export market. The demand for poultry meat and eggs is declining among the Latin American countries as they strive to become more self-sufficient. On the other hand, export opportunities in the European market are expanding, particularly in Germany and Switzerland.

At home, a large late crop of turkeys, plus record storage holdings, indicate prices to producers near last year's low level during the marketing season. More layers and more eggs per hen mean several months of egg production at from three to five per cent above last year's levels, with lower prices, according to estimates of the U.S. Department of Agriculture. Broiler output rose substantially again in 1958 and no significant downturn is in sight, despite depressed prices.

Expansion in the poultry business seems to be predicated on continuing adjustments and change within the economy rather than on artificial efforts to preserve stability practiced in respect to some other commodities.

Much of the price declines and higher distribution costs in poultry marketing have been offset by improved production and marketing efficiency and by expanding consumer outlets. Per capita consumption of broilers has jumped more than 400 per cent in the past 10 years and the consumption rate of turkeys is up by two thirds.

CONSTRUCTION

Homebuilders may find themselves running into a whole new batch of problems in spite of the business upturn.

As business has again taken on a healthy outlook, money for home mortgages is again getting tighter, with investors apparently directing much of their funds into other areas.

GI loans, which have for years been a strong, but erratic, segment of the market, will again face the problems posed by their inflexible interest rate which generally trails the market. FHA-insured loans promise to fare somewhat better, but these, too, will probably not be abundant.

All this comes just when the Federal National Mortgage Association has run out of the $1 billion special assistance money voted in the 1958 Emergency Housing Act to purchase mortgages up to $13,500.

These factors will doubtless spur FNMA's secondary market operations which were slackened when money loosened last spring.

CREDIT & FINANCE

The early business recovery has surprised many financial observers.

The past year's decline in capital expenditures is now tending to bottom-out and there has been a sizable liquidation of inventories.

Definite recovery now seems to hinge on consumer activity and demand. Other factors that will aid in this final recovery stage are a rising stock market, continued demand for housing, and an upturn in government and private payrolls. Add the generally expected increase in government spending at all levels and you have recovery well under way.

Money patterns have changed somewhat too, with Treasury bills now yielding about 2.58 per cent, up slightly from last month, but down from last year's high of 3.58 at this period. Higher yields on government bonds may continue to attract nonbanking money in the longer-term maturity area.

DISTRIBUTION

The distributive trades have been gathering steam for the fourth quarter home stretch.

Early calculations indicate that the final quarter spurt may not only top the same 1957 period, but may pull total 1958 results alongside or even slightly ahead of 1957.

Basis for optimism includes: firming up of consumer confidence and growing wants of more people; improved demand for new model cars; stepped up rate of department store sales which foretell a record-setting holiday season; retail price stability, due to keen competition, and continued price consciousness.

Inventory data show a general tendency to play it safe. Nationwide, the dollar value of department store stocks is trailing last year's by about three per cent. The same is true for merchant wholesalers who, simul-

taneously, are recording sales gains.

Reports from some of the recession-hit trades indicate: third-quarter sales upturn in major appliances; good fall sales expectations in hardware stores which, if realized, could boost annual volume ahead of last year; fair to good retail furniture sales in the fourth quarter.

FOREIGN TRADE

The plight of the less-developed countries which are now experiencing serious economic setbacks because of the low prices for raw materials in world markets presents a thorny problem for the General Agreement on Tariffs and Trade meeting being held in Geneva.

Raw material prices have declined five per cent since 1955, while industrial prices rose six per cent, according to a study by four international economists.

This trend has an immediate depressive effect on world trade.

The long-range problem is how to stabilize earnings of raw-material-producing countries without resort to international commodity controls.

Significantly, some calculations have indicated that loss of earnings by primary-producing countries from the drop in prices have been greater than the total economic aid extended to them.

GOVERNMENT SPENDING

Budget prospects for fiscal 1960 improve each day as the economy continues upward. Although the expenditures are still expected to be $79 to $80 billion, increased revenues should reduce the anticipated deficit to a $2.5 to $4 billion range for the fiscal year beginning next July. Present indications are that grants of new spending authority will be $75 to $76 billion. A liberal spending attitude by the Eighty-sixth Congress could worsen this picture. A lack of strong economy sentiment in the face of a booming economy might make this a real threat to federal financial soundness.

Hearings before Budget Bureau examiners have been under way for more than a month on initial submissions for the 1960 budget, and indications are that strong economy-mindedness is present in these deliberations.

Rather than wait for the entire budget submission of an agency before beginning its review, the Budget Bureau now takes parts of an agency budget as each has been completed and starts its analysis immediately. This appears to be an improvement which should have effect on the quality of review as well as budget timing.

LABOR

The secondary boycott, which has been called the most vicious union unfair labor practice—second only to violence—is expected to be the lead agenda item when the McClellan labor rackets committee resumes hearings this month. It also is expected to result in some controversy among committee members.

Senators who look to union officials for much of their financial support will see no inherent wrong in the use of the secondary boycott—a technique to coerce neutrals to take the union's side in labor disputes or organizing drives. Other senators feel all forms of secondary boycott should be outlawed.

The hearings also will lay the foundation for secondary boycott legislation in the next Congress. Senator McClellan already is on record favoring corrective boycott amendments, and Senator Curtis has been the chief spokesman for legislation. He has sponsored a bill to close the boycott loopholes now present in the Taft-Hartley Act and end organizational and recognition picketing.

NATURAL RESOURCES

Outlook for the electric utility industry is for a continuation of the explosive pattern of growth of the past 20 years.

Analysts feel that electric-powered mechanization in household, farm and industry has only begun and that the utility business will continue to expand at a rate of about 10 per cent yearly.

Few other businesses can show a record of doubling every decade. The greatest surge of expansion has come since 1947. During the growth period, the cost of electricity has steadily gone down. Since 1940, the cost of living index has doubled, the cost index for general construction has more than tripled, and the cost of fuels used by the electric utilities has nearly doubled. Yet the average price per kilowatt-hour sold to the ultimate consumer actually fell from 2.06 cents in 1940 to 1.67 cents in 1957.

TAXATION

Now that Chairman Mills of the House Ways and Means Committee has announced the areas in which hearings will be held next year, there is much speculation as to the status of tax programs being announced from significant sources.

For next year, Mr. Mills projects another technical amendments bill aimed primarily at closing loopholes and redesigning a number of highly controversial areas. This early announcement was obviously intended to damp down demands for major revision which would include rate reduction.

But, at about the same time Mr. Mills outlined his plans, Vice President Nixon cast his support behind the demonstrated need for release of funds for investment purposes. And Rep. Richard Simpson, No. 2 Republican on Mr. Mills' potent tax writing committee, also made it clear he would support the Nixon position with detailed recommendations.

With our overstated $12.2 billion deficit being whittled down by unexpectedly rapid economic recovery, protagonists of both viewpoints may find running room.

TRANSPORTATION

A variety of problems is delaying the airlines' smooth transition into the jet era.

One of these is the fact that the passenger fare investigation by the Civil Aeronautics Board has dragged on for 30 months without a decision. Some airlines have already canceled aircraft previously on order until they find out if permitted fares will allow them to finance this expensive equipment.

Whether Congress will again consider user charges to defer the costs of federally provided navigational aids is another problem.

Such charges were proposed but not passed in the last session.

In addition, labor has chosen this critical period to make substantial demands on the industry.

The various welfare programs may be expected to show continued increase

and may be less. Public utility operations comprise another type of gray area. The postal service is one of these. It cost the taxpayers nearly $700 million in fiscal 1958. Some aspects of the postal service are performed as a public service, and should not necessarily be paid for by postal users. But the idea that the private user of the mails should pay his way is gaining acceptance. The postal deficit may shrink.

Net federal outlays for road building should remain small over the long run. The concept that the user of roads should pay for the roads he uses is being tacitly accepted. A trust fund has been set up into which go certain revenues received as a result of highway traffic—such as federal gas excises. Most federal highway obligations are to be financed from this fund. Those that may not be so financed, such as roads in national parks or on Indian lands, need not require a larger share of the national income in 1970 than they take in 1958 or 1959. Nevertheless, pressure to shift the cost from user imposts to the income tax will continue strong. This area needs to be watched.

Somewhat related to the highway outlay is the expenditure for civilian aviation aids. Net expenditures in this field, which were less than $250 million in 1953, rose to more than $400 million in 1958. However, there is a real chance that this problem will be faced within the next decade. As the rate of growth slows down, as larger planes come into use, the size of the federal subsidy can drop—at least in relation to the national income.

Subsidies for water transportation are another large federal expense in the public utility area. Those who benefit from the subsidy for waterborne traffic contend that they should continue to be subsidized and this cost may increase 25 per cent or about $100 million.

A second major category involving capital outlays for purposes not associated with general government as such and yet not in the public utility domain includes housing and community development. The major expenditures here are for public housing, slum clearance, and urban renewal. Net outlays for these purposes have fluctuated sharply. They were nearly $500 million in 1953, less in 1957. If cities and states leave the major responsibility for financing of programs to Washington, the cost to the federal taxpayer could exceed $2 billion by 1970.

Federal capital expenditures for natural resources development are also in this general category. Over the long run, such expenditures may be self-liquidating, but this analysis is concerned only with their immediate impact on the taxpayer. For most outlays in the natural resource category, the general taxpayer often supplies not only the credit, but also much of the capital.

This category of federal expenditures has been costing from $1.1 billion to $1.5 billion a year. Some types of outlays, as dams for power or navigation, may decline in number. There will not be many more Grand Coulee dams, or St. Lawrence Seaways, at least outside of Alaska. But federal outlays for parks and for the public domain may expand. Outlays for all natural resource programs, aside from farm programs, exceeded $1.5 billion in 1958. They may be in the neighborhood of $2 billion to $2.5 billion by 1970.

TAXES IN 1959

For glimpse at immediate tax prospects, see

"Where Tax Change Can Come in '59"

Page 14

All together the programs listed totaled somewhat less than $8.5 billion in fiscal 1958. They may approximate $11 billion in 1970, an increase of roughly 30 per cent. Compared to a potential increase in the GNP of more than two thirds, (up from $435 billion to $725 billion or $750 billion) this increase would represent a drop from about two per cent of the GNP in 1958 to 1.5 per cent in 1970.

The next major type of outlay is for the benefit of special groups, such as the aged, or veterans. This category is growing. Payments to states to aid needy persons grew more than a third from 1953 to 1958. Increasing prosperity does not necessarily reduce this type of expense, for two reasons:

First, as the population is growing, a declining proportion of needy in a growing country could still mean an absolute growth in the number getting help.

Second, standards rise with prosperity, and the standards for the needy rise, too. It may be wise to assume that outlays here, either federal or nonfederal, will rise by 50 per cent or more by 1970.

Veterans' compensation and pensions have been rising, too. They went up about 30 per cent from 1953 to 1958. Such outlays mean that veterans are taxed to support veterans, but it would be hazardous to assume that the figure will rise by less than $2 billion by 1970.

This rise is not inevitable, merely probable.

Other expenditures for veterans have tended to run around $2 billion a year. Some payments, such as those for hospitals and medical care have been rising; others, such as readjustment benefits for unemployed veterans, have been dropping. The total has risen slowly. All payments to or for veterans may be 50 per cent, or $2.5 billion, higher in 1970 than in 1958.

Other public welfare outlays will rise. Federal outlays for public health have doubled in the past five years, and may be expected at least to double again by 1970. Other general welfare outlays, such as those for research, libraries, school lunches, etc., may be expected to expand.

Putting these welfare categories—special and general—together, we again get a current outlay of about $8.5 billion. This may rise to $12 billion or $13 billion by 1970.

Moving next to general government and overhead, we find a 1958 outlay of about $9 billion. Of this, about $7.7 billion was cost of interest. General overhead, and miscellaneous items, such as legislative functions, costs of the District of Columbia, the Weather Bureau, etc., came to nearly $1.5 billion.

It cannot be assumed that the average interest rate by 1970 will be much below the average level now paid. The debt may be expected to rise. If it rises by 10 per cent between now and 1970, with no change in the average interest paid, the interest charge will go up about $750 million a year.

The cost of miscellaneous and overhead governmental operations will rise as wages rise, and with in-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Growth in education expense may be matched by business activity

creases in the personnel required. If personnel compensation rises by an average of about three per cent a year, the cost for this operation may rise nearly $1 billion by 1970.

Putting these two together, we get possible increases varying from $1 billion to more than $2.5 billion, depending on what happens to the debt and the interest rate. These increases vary from about 10 per cent to nearly 30 per cent.

This leaves us with the one major federal outlay, and the biggest question mark—national security and international aid. Outlays in these categories came to about $46 billion in fiscal 1958. Those with informed judgment in the field believe that the $46 billion will rise to $60 or $70 billion by 1970.

In a study of this sort it is always safest to allow for an unknown. New discoveries, new needs, new pressures, are certain to result in some unexpected expenditures. If we allow about $2 billion for this, we have total prospective increases in federal outlays in the next 12 years of $23 to $38 billion, or 35 to 55 per cent.

Now, let's look at state and local governments. Their outlays grew from $28 billion in 1950 to more than $46 billion in calendar 1957. After excluding federal subsidies, and translating the net outlays into 1957 dollars, they rose from about $22 billion in 1950 to more than $42 billion in 1957, an increase of about 90 per cent in seven years. This is an average growth of nine per cent per year. Experts foresee a continued high rate of growth. A six per cent growth per year would give a total outlay in 1970 of not far from $90 billion in 1957 dollars.

A detailed analysis may help decide if such a growth is probable.

The biggest outlay is that for education. Expenditures for this purpose went from $7 billion in 1950 to $14 billion in 1957.

Serious observers believe that state and local expenditures for education will at least double between 1957 and 1970 (a rise of 5.5 per cent a year). Some believe they may rise by about 150 per cent (nearly 7.5 per cent a year). Both figures are lower than the eight per cent rate that has been prevailing.

The projected increase is high, because there will be a shift in the number and per cent in high school and in college. The large number of births since 1945 has primarily affected enrollment in the grade schools thus far. By 1960 it will be heavily felt in the high schools. A year in high school costs more per pupil than does a year in the grades. The pressure on colleges and universities will be accentuated early in the 1960's.

So it is probable that total outlays by state and local governments for education will at least double between 1957 and 1970.

This may not be the strain the figures suggest. The 1957 outlays were about four per cent of the economy. A $30 billion outlay for 1970, a rather high estimate in 1957 dollars, would be only four per cent of a full employment economy whose labor productivity has grown on the average about 2¾ per cent a year. The growth in educational expenditures may well be matched by the increase in general business activity.

This was not the case from 1947 to 1957. Education expenditures grew twice as fast as the economy during these years.

The next biggest item is highways. However, roads are largely self-liquidating. Total direct revenues from beneficiaries of highways in 1957, including governmental incomes from gas and other excise taxes, were about $2 billion less than all outlays, including maintenance and policing. Much of this $2 billion was paid in the form of taxes by direct beneficiaries. Possibly, though this is an arbitrary estimate only, about $1 billion of this was paid by those who were not direct beneficiaries. If new charges are not levied, or present excise taxes are not increased, this $1 billion figure could approximate $2 billion by 1970.

Outlays by state and local governments for public welfare ran from about $2.9 to $3.3 billion a year from 1950-57. After deducting federal aid, net state and local outlays came to about $1.75 billion in 1957.

This category has been a declining percentage of national income. Under generally prosperous conditions, expenditures for public welfare should not increase faster than

State and local tax loads will grow much faster than the federal burden

the economy. They may increase to $2.5 or $3 billion, net of federal aid, by 1970. Under generally good employment conditions, the lower figure is more likely.

Other large outlays include sewer and water services. Outlays for these services exceeded revenues by about $1.5 billion in 1957. The actual deficit may have been smaller, as some revenues received went into general funds and were not credited to these services. As in general these services are being increasingly financed by user charges, this deficit should not grow sharply.

Expenditures for general health purposes, including outlays for hospitals, came to less than $3 billion in 1957. Our health standards are rising, and these expenditures may be expected to rise, too. They may come to $5 or $6 billion by 1970.

Interest on the debt came to about $2.75 billion in 1957. Unless taxes are raised more than seems probable, expenditures may exceed receipts by enough to cause the total state and local debt to double, or more than double, by 1970. Interest expense may, therefore, run from $5 to $7 billion by 1970. It might go even higher.

One type of outlay, which has been relatively small in total dollars but which can be significant in its implications, is the expenditure for natural resources. It approximated $1 billion in 1957. This outlay may be expected to increase as urban concentration grows and the importance of preserving areas for vacation, recreation and other purposes becomes more pressing. It may total approximately $2 billion by 1970.

The investment for slum clearance is harder to project. Outlays by state and local governments were rather nominal in 1957. They may total $1 billion by 1970.

Police and fire protection came to about $2 billion in 1957. This may rise to $3 billion by 1970. General administration, and miscellaneous but important items, such as recreation, libraries, etc., came to about $5 billion. Inasmuch as this group includes new opportunities for expenditure as they are discovered, as well as important existing categories, it may be expected to grow more rapidly than the average. It may run from $8 to $10 billion by 1970.

Omitting self-liquidating operations, but allowing for deficits in some enterprises not run on a completely self-liquidating basis, we get the following rough projection for state and local outlays which must be financed by general taxation, or by borrowing:

A large number of the categories may increase by 50 per cent or more, and the total of state and local outlays goes up in a range of 90 per cent to roughly 125 per cent. Assuming the GNP to rise to $740 billion—an increase of 70 per cent—the total state and local outlays financed by other than user taxes and federal aid goes up from 6.6 per cent of the GNP in 1957 to roughly 7¼ per cent to nine per cent by 1970.

The federal take, including the sharp rise for defense purposes, goes up much less. The federal take under the assumptions used drops from 16.6 per cent of the GNP in fiscal 1958 to a range of from 13 per cent to 15 per cent in 1970. Should the federal take increase at the highest rate indicated, it would still be taking less in a prosperous 1970 than it took in fiscal 1958.

The state and local tax pressures, however, will be important in the decades ahead. Without reducing their interest in federal activity, individuals and business organizations alike must pay increasing attention to state and to local programs.

The decline in the relative take by the federal government may be enough to offset the increase by state and local governments. The total outlay of federal, state and local jurisdictions in categories financed by general revenues came to 23 per cent of the GNP in 1957. In the highest projection used here, it comes to 23.6 per cent.

This suggests that, in the absence of a hot war, and even if military outlays rise to $70 billion, the total general tax burden can be held to a total no greater relatively for a healthy economy in 1970 than it was for the economy of 1957. Rising incomes in an improving economy would yield higher revenues and might even make federal tax cuts possible.—ROBINSON NEWCOMB

FUTURE EXPANSION

continued from page 33

Many companies that are going into recovery in fighting trim will have difficulties staying that way as business comes easier. Already expenses are rising here and there. Some of them are necessary for sound growth.

Many manufacturers, however, are concerned about how to make permanent the fat-trimming reforms.

As one manager put it, "Making sure you get a big share of the market now is important, but just as important is making sure the looseness and excess expense don't creep back."

This doesn't mean business management won't need the renewed thoughts and participation of managers whose strengths are as builders and promoters rather than as controllers and dollar-watchers. But the executive who can think expansively in an economical way will be most valuable.

The top manager himself realizes today he must strive for objectivity in his decisions. He also knows he has prejudices and opinions and attitudes that influence his judgment. He may have an inordinate amount of confidence in a particular economic indicator to guide him. He may rely on the recommendations of an adviser whose acumen he has found valuable in a completely different field. Even the chance remark of a golfing companion may influence his thinking.

Discerning executives also know that their moods are projected throughout the company and that they can help create excessive optimism or pessimism by their attitudes. They realize that people lean toward overconfidence about their own ideas, proposals or projects and that often the best persuader can sell his plan of operation, though the plan itself may not be the best course of action.

All these considerations should be part of the thought processes of top managers these days.

Escape valves

Business operation at any point is a risk. In a period when the economy is shifting dramatically, however, the temptation is greater to act dramatically.

"Be flexible," advises Dr. Edwin M. Glasscock of Farr & Glasscock Associates, "allow for a margin of error. Since any decision you make, whether on a market forecast or construction program, can go sour, try to include a built-in safety valve. Few forecasts are exact and few expansions are as cheap as anticipated."

Successful managers, he notes, are not just those who can make decisions, but those who can turn a wrong decision into a good thing.

"It's the crucial part of decision-making."

Your best laid plans can't control the unexpected successes of your competitors, for example. And the outcome of any decision or program will always be influenced by changes that occur between the time of the decision and resulting action.

A standby plan that can be substituted if an original plan goes awry minimizes chaos and the threat of panicky decisions aimed at solving the difficulty.

Finally, you can develop a checklist of questions that can be asked to test any new scheme or project to make sure it is related to your organization's basic objectives, experience, knowledge, market position and skills. This can be a valuable safety factor.

Long-term trends

Almost without exception, economists and businessmen predict boundless growth of our economy over the long run. Contributory factors are the coming population and family formation boom, product and technological advances from increasing research, rising standards of living, education and consumer desires and demands, increasing foreign markets.

Barring war, the long view for expansion is bright. But certain current trends also indicate several future threats and responsibilities for business. Long-range planning can be guided by these trends.

Liberalism in government is increasing. Labor's economic power continues to grow. Edge-of-war tension keeps defense spending high. Young, educated and skilled members of the labor force will be in shorter supply. Inflation will push costs and prices upward. Taxes undoubtedly will stay high.

This complex of forces makes the fundamental mission of business—making profits—more difficult and challenging. To grow and progress, managers inevitably must assume more responsibilities for measuring markets and motivations and developing the men to produce the goods and services to meet the nation's needs and to help guide our national policies. END

REPRINTS *of "Chart Future Expansion Now" may be obtained for 10 cents a copy or $6.75 per 100 postpaid from Nation's Business, 1615 H Street N.W., Washington 6, D.C. Please enclose remittance with order.*

CONSUMER CREDIT IN '59

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consumers is good. New estimates show that, for every dollar Americans owe, they have assets worth more than $4. Assets total $630 billion. Liabilities are about $155 billion, including mortgage debt as well as consumer debt.

In addition, the President's Council of Economic Advisers estimates that Americans currently are saving at the rate of about $19 billion a year, thus building a backlog of financial assets at a rate exceeding six per cent of disposable personal income.

A new study by the Federal Reserve Board shows that three out of four American spending units have no debt at all or owe less than $500. Four out of 10 owe nothing. [Mortgage and business debt are excluded here.]

A spending unit is defined as all related persons—such as husband, wife, and children under 18—living together and pooling their incomes. America has 57 million such spending units.

About 24 million have no personal debt at all and the study shows that a total of 34 million owe nothing at all or less than $200. Another 7.4 million owe between $200 and $499, and 7.5 million owe between $500 and $999. Approximately 8.5 million spending units owe $1,000 or more.

Thus a grand total of 49 million American spending units owe nothing at all or less than $1,000.

Analysis further reveals:

Of those spending units with incomes of $3,000 or less, 8 million have some debt and 10 million have no personal debt.

Spending units with incomes between $3,000 and $6,000 include 14 million who owe some debt and 7 million who owe nothing.

Of those with $6,000 or more income, 12 million owe some debt and 6 million owe no personal debt.

Personal incomes

Incomes are rising. Current annual income of about 25 million

CONSUMER CREDIT

continued

spending units is $5,000 or more, with 10 million receiving $7,500 or more. The mean average income for all spending units is $5,160. More than half of the units in the lowest income brackets are headed by persons younger than 25 years of age or older than 64.

Total personal income declined about 1.2 per cent during the recession. All of that drop has been regained and the trend is now upward.

This, of course, is not true in areas most seriously affected by recession unemployment, but even there unemployment compensation prevented serious sags in consumer income totals.

In the months ahead the number of hours worked is expected to increase and the number of jobless will shrink as the economy rises. These factors, together with pay increases, are expected to boost total personal income to a new high next year.

Credit experience

New techniques for extending installment credit and a new merchandising philosophy have liberalized credit, converting it into a most potent selling tool. In this transition, credit standards have been subordinated to sales goals. Terms have become progressively easier and have been scaled according to size of loan. New methods, such as revolving budget plans, enable the customer to buy almost anything, including services, on extended terms.

This revolution in credit granting is the product of hardheaded and imaginative business thinking about the economics of the credit business. The credit record of the American consumer has been so favorable that businessmen have found that they can safely relax standards.

Unlike Americans in earlier boom periods, consumers today seem less inclined to go into debt out of proportion to increases in income. Credit specialists attribute this largely to the fact that America has a growing number of businessmen experienced in sound credit practices and a growing number of consumers who are experienced credit users and who make credit purchases for convenience rather than being forced by their financial status to buy on terms.

For these reasons it seems unlikely that expansion will be moderated by any reluctance to extend credit. **END**

More than half the men of draft age do not serve under universal service

industry. Anyone who gets such a deferment theoretically remains liable for induction until he is 35 years old. But by executive order, men with this extended liability go to the bottom of the call-up list, along with the fathers, as soon as they turn 26. So the actual prospect of being inducted is virtually nil.

Other relatively small groups of youths are draftproof because they are clergymen, divinity students, aliens, public officials, conscientious objectors, or sole surviving sons of families bereaved by war. This brings us to an eye-opening fact:

Less than half of the young men in the draft age group are actually seeing military service under the present universal service laws.

The public is increasingly aware of this fact. That's why congressmen, stumping the hustings this fall, have heard so much grumbling about the "unfair" and "discriminatory" draft.

Meanwhile the draft is under heavy attack from another quarter. A growing body of Americans—including some business leaders—believe that the draft is an inefficient, and, in the long run, uneconomical way of filling military manpower needs.

These Americans have rallied around the professional forces concept outlined last year by a high-level Defense Department study committee. The committee was headed by Ralph J. Cordiner, then president and now chairman of General Electric Company, and included a number of other prominent business executives.

According to the committee, the real personnel problem in the armed forces today is quality rather than quantity.

"Strategy and tactics are undergoing radical change," the report said. "Yet strangely enough, the principles and practices which guide the recruitment, motivation, compensation and development of men have not changed substantially in the history of our country.

"It is foolish for the armed forces to obtain highly advanced weapons systems and not have men of sufficient competence to understand, operate and to maintain such equipment. . . .

"The solution is not to draft more men to stand and look helplessly at the machinery. The solution is to give the men already in the armed forces the incentives to stay long enough and try hard enough to take on higher responsibilities."

Congress responded to the Cordiner report by enacting this year a military pay bill which granted raises of at least six per cent to all men with more than two years service, and which set up a brand new proficiency pay system under which the services will henceforth offer incentive pay boosts, ranging up to $150 a month, for specialists and technicians.

Although this pay bill is expected to cut losses of highly skilled servicemen who have been trained at great expense, Pentagon leaders say

emphatically that it will not eliminate the need for draft authority.

"The draft is still absolutely essential if we are to maintain the military strength levels that are necessary for national security," says Charles C. Finucane, assistant secretary of Defense for Manpower.

Mr. Finucane says the Army has concluded, from extensive recent studies, that it could not maintain a strength of more than 535,000 men on the basis of voluntary enlistments alone. The Army's present authorized strength is 870,000 men.

While the Navy, Air Force and Marine Corps are now meeting all their requirements through voluntary enlistment, Mr. Finucane says, "these services admit that their success in recruiting has been at least partly due to the stimulus of the draft."

He adds that "draft-inspired volunteers" are also of crucial importance in keeping the National Guard and other Ready Reserve components up to strength.

Mr. Finucane agrees that professional armed forces, composed entirely of volunteers, would be vastly preferable to a partially conscripted military establishment.

"Modern armed forces require increasingly larger proportions of technical and skilled manpower—jobs requiring extensive and expensive periods of training. We know that enlisting men voluntarily for three, four or more years produces a more effective force at less cost than inducting them for two years. We have been trying for the past several years to make military service more attractive in order to increase our voluntary enlistment and re-enlistment rates."

He ticked off some of the career incentive measures placed in effect during the past four years—improved survivor benefits, medical care for dependents, better housing, larger re-enlistment bonuses, dislocation allowances on change of station, government-guaranteed home loans, and better promotion opportunities.

As a result of these measures, Mr. Finucane says, re-enlistment rates have improved appreciably. The average re-enlistment rate for first-term regulars (the most critical retention group) rose from 15.7 per cent in fiscal 1955 to 27 per cent in fiscal 1958.

"We hope that all of these career incentive programs will eventually require less and less resort to compulsory military service," he says. "But it would be folly to abolish the draft next year in the mere hope that volunteer programs would do the job."

Outside the Pentagon, several proposals have been made for speeding the day when the services can rely entirely on professional volunteers.

One is to raise the starting pay of recruits, which the Cordiner pay bill left untouched at $78 a month.

Dr. J. K. Galbraith, Harvard economics professor, believes that the increases in basic pay required to attract much larger numbers of men to the armed forces would not be astronomic.

Another suggestion, from a study sponsored by the Fund for the Republic, is to make more widespread use of civilian personnel and civilian contractors in construction, procurement, warehousing, supply, transportation, housekeeping and recordkeeping operations, thereby reducing the need for men in uniform.

If one accepts the Pentagon position that some kind of draft law will continue to be necessary after mid-1959, the next question is what changes are needed to bring the law into reasonable conformity with ac-

tual military requirements and to make it more equitable in operation.

Here is where Defense Department manpower experts part company with General Hershey.

Defense officials are greatly concerned about the rising age level of inductees. In an effort to maintain the congressionally decreed concept of universality of service, draft boards are filling their quotas with the oldest eligibles on their lists. But as the pool of surplus 1-A's grows, the average age of the men being called creeps steadily higher. It is now about 22 years and nine months. This is at least three years and nine months past what the military regard as the prime age for recruits.

There is growing sentiment in the Pentagon for two fundamental changes in the law. They call for:

1. Reducing draft age limits so that a youth is liable to call-up for only about two years after his eighteenth birthday, instead of remaining eligible until he is 26 (or until he is 35 if he gets a deferment).

2. Recognizing that the armed forces need only a fraction of the youths in the draft-age group, and selecting by lot those to serve.

These changes would achieve several results. They would insure the Army's getting the younger men it wants. They would ease public criticism that the present draft throws a pall of uncertainty over a youth's life for an intolerably long period. Finally, they would end the hypocrisy of the universal service slogan, and would put the selection of draftees on a basis that Americans have traditionally regarded as the fairest possible.

There is, however, one flaw. It is spotlighted by General Hershey's question to an interviewer:

"Are you going to have a real lottery . . . or a phony one?"

To General Hershey, a real lottery means actually inducting the man whose number comes up—unless he is found to be grossly unfit for any kind of service. It means wiping out the special categories—students, essential workers, fathers, etc.—and throwing all able-bodied men into the pool from which the choice would be made by lot.

General Hershey well knows that the Pentagon is likely to balk at such a lottery. What the Army manpower planners really want is to continue the present system of screening out all of the less desirable draft candidates—the fathers who would rate dependents' allowances, the men who may need a lot of dental care or arch-supporting shoes,

DRAFT LAW ISSUES

continued

the slow-learners who create problems for training instructors (just as they create problems for high school teachers and shop foremen). The lottery would then be applied to those who are left.

In General Hershey's view, this would be just as discriminatory as the present system.

General Hershey acknowledges that the present draft setup is not ideal but he believes that many complaints voiced against it would disappear if the Defense Department would operate the six-month-trainee program at the 250,000-men-a-year level authorized by Congress. This would soak up a lot of the surplus in the 1-A pool and slow the risk in the average age of inductees.

It would also, General Hershey says, provide the nation with something that it needed badly at the time of the Korean war and may need again—a large reservoir of Ready Reservists who are trained but have not served.

Defense officials would prefer to move in the opposite direction if they could.

The 1955 law authorized a Ready Reserve of 2.9 million men, and provided elaborate arrangements for channeling into it, not only six months trainees, but draftees and enlistees at the conclusion of their active duty service. Provision was made for enforcing the obligation of ready reservists to participate in regular drill sessions, under penalty of being called to active duty or even being court-martialed.

This much-publicized paraphernalia for compelling service in the drilling reserve has come to a rather farcical end. The plain fact is that the armed forces are unwilling to invest their limited defense dollars in a Ready Reserve force of the size Congress contemplated. Less than 1 million men are now on drill pay status—which is the real criterion for determining who is in the quick call-up components of the reserve. The Defense Department tried valiantly this year to reduce the total still further by making 10 per cent cuts in National Guard and Army Reserve personnel drawing drill pay. But an uproar from state governors and Congress blocked the move.

The situation at present is that the Ready Reserve components generally have more men who are eager to draw drill pay than they have vacancies. Once in a while they have to invoke the compulsory clause to

DRAFT LAW ISSUES

continued

avoid the ultimate scandal of a six-month trainee abandoning the weekly drill periods which alone bring his service into rough balance with the draftee's two years of active duty. But there is little point in threatening to recall or court-martial a former draftee or enlistee who fails to keep up the three or four years of post graduate drilling reserve participation which ostensibly is required of him by the 1955 law.

Obviously, both the draft and reserve laws have already been amended by history. The only question now is whether Congress will lend history a hand, and try to put our military manpower statutes on a fair and rational footing.

—LOUIS CASSELS

STATEMENT Required by the Act of August 24, 1912, as amended by the Acts of March 3, 1933, and July 2, 1946 (Title 39, United States Code, Section 233) showing the ownership, management, and circulation of NATION'S BUSINESS published monthly at Dayton, Ohio, and Washington, D. C., for October 1, 1958.

1. The names and addresses of the publisher, editor, managing editor, and business manager are: Publisher, Chamber of Commerce of the United States of America, Washington, D. C.; Editor, Alden H. Sypher, Washington, D. C.; Executive Editor, Paul McCrea, Washington, D. C.; Business Manager, William W. Owens, Washington, D. C.

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COMPUTERS *continued from page 39*

performed in one place and the reason for the various divisions is eliminated. One solution, he thinks, is to push the various divisions together, reducing their numbers as the functions are changed.

"This will have a disturbing impact on all levels of management," he says. "My own hunch is that we will see fewer layers of administration in the business organizations of the future. There will be fewer functioning divisions and departments to be supervised and coordinated."

Dr. Rush reaches the same conclusions.

"Organizations have been structured in such a way that the major units, such as departments or divisions, are defined in terms of the data or information they use," he says. "But as data processing has advanced in scope and efficiency, this system of information has tended to become integrated under a single department of information specialists. When this happens, departmental lines begin to dissolve and structural changes take place."

Just how this process affects a company and the decision-making functions at the top depends on the nature of the organization. Where basic operations revolve around a single function such as accounting, the tendency is to centralize direction around the electronic data processing department.

At the Pacific Mutual Life Insurance Company of Los Angeles, which employs 950 people to handle 350,000 policies and pay $70 million in benefits each year, office automation has materially affected departmental organization over the past five years. The system has cut across organizational lines of seven different departments and consolidated all the functions which relate to the handling of individual insurance operations. The reorganization revolves around a policy owner service department.

The jobs of 15 key executives in middle and top management have been upgraded and the former manager of the electronic data processing department has been elevated to treasurer with responsibility over five departments, including the entire electronic operation.

This promotion is indicative of another trend beginning to show up in certain companies—the advancement of the data processing director to a top management position because he has his finger on what is going on.

"One of the most noticeable effects of this kind of shifting around [in organization] is the mounting power of the man who directs the data processing operation," says Mr. Slater of John Hancock. "This may look like empire-building to some, and political problems may be intensified, but it means that top management will have to begin rethinking key executive assignments and responsibilities, and do it early enough so that necessary adjustments and transitions can be made gradually and relatively painlessly."

Changes have been taking place in Consolidated Edison in New York.

"We're in the business of mass billing and mass accounting," says a company official, "so we need the greatest possible mechanization and have been evolving in that direction for 20 years. In the first place, the machine was associated with the work function—payroll, stores records, stores accounting, customer billing and the like. We had 20 tabulators throughout the company. But it soon became evident that this was uneconomical. So, as the machine function has improved, the tendency has been to centralize and we have arrived at a pretty concentrated dosage of machines in one department."

Dramatic changes have taken place in the Michigan Hospital Service (Blue Cross), where a computer helps 1,500 employes handle the records of 3.5 million subscribers.

To adapt to the new system, a training program was started five years ago to build versatility into a staff of 125 management people so

they would be able to cross departmental lines. Known in the organization as criss-cross management, the system is described by Robert Koch, the manager, as follows:

"This is the process of using supervisory personnel to solve company-wide problems in policy and procedure so they will accept changes because they are part of the changes and are helping make them. We have found that there is no better formula for avoiding resistance to change than to have the people make the changes themselves."

Users of the equipment who are already well decentralized say the process of change can be characterized as an integration of procedures and services rather than a change toward more centralized management.

One of these is General Electric Company, which has 46 computer systems in its various plants. James Pontius, senior consultant in the company's electronic data processing development, says:

"I don't think our company organization will be basically changed. In other words, I don't think electronic data processing will tend to concentrate control in a central company management.

"But within our departments, things are happening.

"In each department, management consists of five functions: marketing, manufacturing, finance, public and employe relations and engineering. Taking them all together, you have the pieces that can economically support electronic data processing and it works better if you have them all in one place. Then you can integrate procedures and there is a flow from one function to the other—a good flow of information, design data, financing and paper work for the manufacturing functions. It all begins in finance, to which EDP is usually assigned; then procedures are integrated from there."

The data processing center at Sylvania Electric Products at Camillus, N. Y., which ties together 97 company locations with 22,000 miles of communications, offers perhaps the greatest range and extent of experience on which to estimate changes.

"Decision-making in the different departments of the company has not been basically changed," says James Gallagher, manager of planning and development. "It's still on a decentralized basis. As a matter of fact, at Sylvania the computer helps decentralization of decision-making.

"However, it has consolidated accounting and information functions. Sometimes the computer may wind up consolidating a whole department in the processing center—such as the accounting department. The credit departments of the divisions have also been centralized."

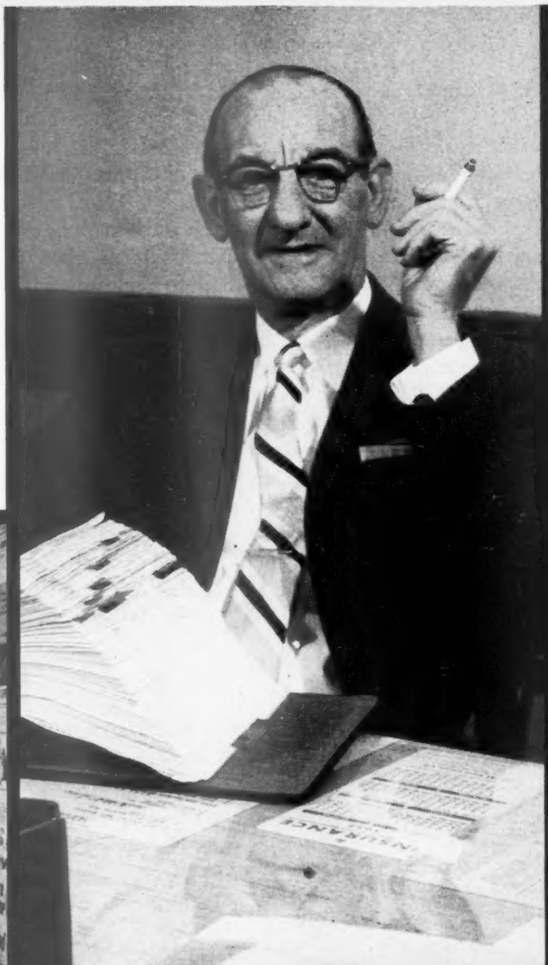
The economics behind this trend toward consolidation of functions and services is explained by an official of Standard Oil (New Jersey).

"Most companies want in on electronic data processing, but it's a very costly process at best," he points out. "However, the bigger the machine, the lower the cost of data processing. This makes it advisable to use the largest possible machine, even if it means renting it from another installation. Centralization of service functions is the trend today. But this does not mean centralization of management. However, to make optimum use of the equipment, you must integrate the service functions of several departments."

An extension of the trend to share services has appeared in what is known as SPAN, an arrangement of four competing insurance companies to set up a computer service agency of their own at Hartford, Conn., on a capacity-sharing basis. The four are Springfield, Phoenix, Aetna and National—SPAN is formed from the initials of the participants.

Ragnar Anderson, director of SPAN, thinks any company can fit into the same arrangement.

"The expense and capacity of an electronic data processing system constitutes no real barrier to a group of companies willing to share the cost and results," he says. He thinks electronic data processing systems



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SCOTT PAPER

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But more often than not it CAN

are bringing about a new era in business. "Though we have decentralized our decision-making, we have centralized our data processing with many exciting results," he says. "If the board of directors meets the third Thursday in July, it has the June figures on which to base its decisions. It used to have to content itself with the April figures at best. And when the directors had to make decisions on the basis of data three months old, they sometimes didn't make them at all."

This speeding up of decision-making data is reported by other companies with predictions of far-reaching consequences. One report comes from Mr. Gallagher at Sylvania:

"When we set up sales records on the computer for our lighting department, we began providing new techniques in the management of the sales division. Now we get: better customer information; better cost information; better utilization of existing personnel; a better over-all look at the regional sales manager's work.

"Above all, top management has what it needs to make rapid decisions based on changes in the market. This ability to make quick decisions can mean millions of dollars. It puts you in a better competitive position."

Middle management

Though the computers' influence on decision-making may vary, everyone agrees that EDP is having powerful and widespread effects on the functions of middle management.

"While it must be borne in mind that people who are using discretionary powers are the ones affected least," says the EDP coordinator of one corporation, "a great many people who think they are using discretionary powers merely face a complex choice of alternates. This choice can be made by the computer. I come on executive after executive in middle management who says 'My work can't be mechanized.' But more often than not it can."

Inventory control and procurement are among the most richly rewarding functions for the application of computers and they supply the best examples of cases where machines are taking over functions previously performed by human supervisors.

One example is a major oil refinery where an inventory control problem of 35,000 items is involved. The computer now maintains a perpetual inventory. It maintains reorder levels. When new items are needed, the computer looks up a list of vendors, and types out the purchase order. In the process, it determines the optimum lot sizes for purchases and discards the items that are obsolete. It even follows up on the purchase order, verifies the invoice and pays the vendor.

All these things were previously done by individual purchasing agents, storekeepers and accounting personnel. The various client departments being served by the computer provide service data and system control information. The computer organization renders service.

Thus, the machine is not taking over. It relieves many people of routine tasks and leaves them free to do higher level work. In the end, it improves purchasing practices because more time is available for analysis of the situation.

Besides speeding decision-making data, the computers are contributing to the practice of management by exception. As the reports come in from the EDP center, the tendency is to go more and more to reports that pinpoint abnormalities. As soon as you can establish the abnormal, you can say:

"These are the weak spots; here is where we need to exert some pressure."

Properly used, computers can improve the quality of management decisions. With extensive information in a common language at a com-

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puter center and with a dozen alternatives, guesswork can be eliminated. So long as interpretation and judgment enter the picture, top management never need fear that the computer will take away any of its decision-making powers. It will merely enhance them.

Top management needs to know where to go for the information it requires. It needs to know what to ask of the system. In the past, it has had to rely too much on the programer (many echelons down) to put the applications on the machine and interpret the information that came out. Systems now coming into use make it possible for top management to understand more about the programing.

Rank and file

Above all, management must realize that long-term indoctrination of rank and file employes is essential before, during and after the installation—beginning as long as three to five years ahead of the actual operation. Without it, fear of the new electronic marvel is so widespread that employes will see it merely as a job-snatching monster.

One manufacturer got off on a wrong foot. The original announcement was a haphazard affair, made with no effort to prepare people for the change and explain their role in it.

So, in what they thought was self-protection, several of the major tabulating people quit. At this point, the company found itself in a difficult position. The computers were two and a half years away. Yet key tabulating people had already left. There was nothing to do but to hire new people and train them.

In bringing in EDP, management should:

1. Assure employes that the company will make every effort to absorb, replace, and retrain employes during the transition. With such policies, nobody is hurt and expanding business usually takes care of the surplus. Articles in the company paper are invaluable in presenting the case.

2. Conduct orientation courses explaining the use of the computer and pointing out the possibilities of greater profits, more customers, upgrading in jobs, eventual increases in salary.

3. Provide for retraining and orientation in new jobs.

A Michigan Hospital Association executive explains how they handled employe-conversion.

"Early in the game, we made a policy of assuring people through our company paper and in meetings that, *a*, nobody would lose a job and, *b*, nobody would take a cut in salary because of the machine. Even now, whenever we make changes in the organization, we take care to inform employes in advance. No fear has ever been apparent. We find the way to avoid resistance is to get people into the act and let them make the changes themselves."

The Pacific Mutual Insurance Company started its preparations more than four years before the installation. Beginning in 1953, studies and surveys were made. Training started in 1954. At the outset, employes were collected in groups and told they could all have new, interesting and higher-paid jobs when the new system came in.

All this was amplified in the employe magazine, with frequent follow-up stories about employes who had been advanced to more highly skilled and better-paid positions. For example, in the clerical phases, some of the women are receiving 50 per cent more salary than before their transfers. In programing, 22 persons who were transferred are receiving an average of 70 per cent more. Tabulating employes who became computer operators received salary increases 80 per cent greater than they would have received had they remained in their former jobs.

Much the same story comes from James Gallagher at Sylvania:

"We don't hire new people, but retain the displaced ones, and it has worked out fine. We have had no uneasiness and little turnover. The

LEARNING FROM COMPUTERS *continued*

computing center has actually raised the quality level of the work. It asks for more precision from the girls and they meet the challenge beautifully—to their own advantage professionally. Our problem has always been to find the people we need, not what to do with the displaced ones."

Other companies say the same thing.

"The loss of jobs has never been a problem with us," says Mr. Pontius of General Electric. "Our expansion rate calls for more people than are displaced."

What took place in a major oil company with mechanization of the accounts receivable not only provides an idea of what happened to personnel but also what happened to profits.

The preliminary survey showed that the operating costs could be reduced and that the job would require 148 fewer people, mainly clerical specialists. Actually, the net reduction in people was around 100 but in the meantime clerical requirements continued to grow, with the result that 50 per cent more people are on the job now than were working when it was first mechanized.

As a result of the mechanization, the company has been able to increase the number of accounts and reduce the cost per account. Result: It is making a $300,000 savings in the department, despite the increase in personnel.

In practically all cases, companies have either found jobs in other parts of the company for those displaced by computers—or have retrained and absorbed them. In some cases, this has been done under the watchful eye of the unions.

Consolidated Edison in New York has a clause in the union contract which guarantees that no one will lose a job because of automation. The company has been dealing with the union on this problem for many years, first on punch-card equipment and now on computers.

"The union knows we need to make these changes to increase productivity and to give pay increases that are necessary to better the employes' standard of living," says one utility spokesman.

In any event, employment of existing personnel is a better practice than displacement and rehiring.

"Most companies believe," says one official, "that it is wiser to train existing personnel to program and operate data-processing machines than to rehire outside people who have had machine experience but know little of the company's operations."

The Bank of America drew its programing and operating group from its branch banks all over California. Writing a complex program for the Bank of America computer, officials found, was more of a banking than a computer problem.

There is another advantage in this for employes. It gives them a chance to learn a new skill, generally one that is more interesting and remunerative.

But the primary responsibility is management's. A company management must gain a full understanding of what computers can do for it, then plan three to five years ahead on functional and structural changes.

Every company should analyze its own individual situation and decide how and where it can use electronic machines," says Wesley B. Bagby, comptroller of Pacific Mutual.

"But for all companies," he says, "the more challenging aspects of these new methods will be the human and not the mechanical. They are the decrease in routine tasks, the new skills needed for the upgraded jobs created, the growing importance of organization, planning and analysis. We can all look forward to a future with fewer people doing the things machines can do, and more people doing the things that only people can do."—PHILIP GUSTAFSON

Frank Castro is one of 17,000 students in Puerto Rico's vocational schools. Photograph by Tom Hollyman.


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SHARPEN THINKING

continued from page 35

a new line of surgical instruments that surgeons agree are in a class by themselves. But this company's chief executive is hypnotized by the memory that his only successes have been in the pharmaceutical business. The instrument operation has to fight for its very existence.

4. *Judging on the single-factor basis.* Perhaps the commonest of all judgment errors is the assumption that one prominent factor associated with a past success or failure was the sole reason for it. The sales vice president of a machine tool company insists that all his field men be college graduates because the first ones he selected happened to have higher educations and were notably successful. He has since passed up several top-notchers who lacked this one qualification, and they have gone on to do fine work for his competitors.

A department store in an eastern city tried establishing a suburban branch almost two decades ago and the venture failed, partly because the location was ill-chosen.

Since then, other merchandisers have made successful excursions into the suburbs. But this department store is far behind them because it turned its back on suburban development for many years. Its management failed to analyze the complex reasons for the past debacle. Only one memory was retained: the fact that a branch had lost money.

All of these companies have been ruled by Gambler's Fallacy to an extraordinary degree. But to a lesser extent, almost every manager is dominated by thought patterns: some are valid; others, emotional.

Whenever we read a pattern into a series of events that actually were haphazard, or when we isolate one factor from a complex group and call it the reason for success, we are risking perhaps the most dangerous variety of Gambler's Fallacy.

Any time a businessman lets himself be governed by analogy with a past situation, he walks on the brink of grave error.

Impact of subordinates

Is Gambler's Fallacy limited to policymaking and executive levels? Obviously not. It is a universal trait that shows up in diverse guises, depending on the nature of a man's responsibilities.

When you understand that all your people have the same tendency to decline in judgment on subjects they face repeatedly, you will find it

SHARPEN THINKING

continued

natural to apply these rules for guiding and motivating them.

Follow through on instructions. Often a manager gives an inconsequential order and fails to see that it is obeyed. To him, it may be of small importance whether the task is done or not. But its effect on subordinates can be serious. Lack of follow-up will be seen as a pattern and expected on bigger commands as well. However trifling the subject, if you found an instruction worth giving, it's worth concluding.

Get rid of old rules that are seldom followed. Don't be deceived by the easy philosophy that "having this law in the books does no harm." A rule that's commonly ignored is sometimes defended as having a mild deterrent effect. It doesn't. The main effect is to jeopardize every other order you give. Work with as few laws as possible; but while they exist, enforce them!

One furniture company's controller said, "This rule would have saved us many dollars and more headaches if we had used it five years ago."

The back of the furniture company's expense account sheets used to carry a set of strict instructions. During the boom years, the company was liberal and these were largely disregarded. The sales staff, finding that minor rules were not enforced, assumed that more serious ones didn't matter either. Inevitably, discipline was impaired and the whole staff had to be reorganized.

Keep changing emphasis to give your instructions maximum vitality. The best of sentiments will lose their zip if hammered at day after day. A drive to reduce costs or to enforce punctuality should not, of course, be allowed to die out entirely after a whirlwind beginning. That carries a different peril. But it can be shifted to lower gear while a new subject gets first attention. And there should even be some periods when no single problem is a burning issue. Otherwise, the rule of easier risk-taking makes people dare to ignore your commands on any subject.

Alternating pressures, on the other hand, can give each new drive the effect of a booster jet.

—CHARLES A. CERAMI

REPRINTS *of "You Can Sharpen Your Thinking" may be obtained for 10 cents a copy or $6.75 per 100 postpaid from Nation's Business, 1615 H St. N.W., Washington 6, D. C. Please enclose remittance.*

Executive Trends

Will you be ready for the boom?

"When the boom to top all booms hits us in the 1960's, we had all better be ready."

The speaker was Walther H. Feldmann, president of Worthington Corporation. The occasion: a recent press conference at which Worthington announced adoption of a new trade-mark and changes in its management strategy.

"There will be two great peaks in the 60's," Mr. Feldmann said. "The first will be around 1962, and the second, perhaps five years later, will literally be an explosion. The largest concentration of marriages and births in our history will take place at about that time."

The upturn of business in recent months has made executives alert to the need for rethinking their plans and methods for the growth period immediately ahead. The strategy successful in a contracting economy differs from that which works best in times of expansion. For a report on the tools a smart expansionist needs see page 31.

▶ *Another sidelight on the big boom of the '60's comes from a new, forward-looking survey of executive manpower needs made by Hoff, Canny, Bowen & Associates, Inc. In the survey, 612 corporations indicated that in 10 years the greatest demand will be for chemists, electronic engineers, electrical engineers, mechanical engineers, physicists, chemical engineers, and industrial engineers.*

How not to lose the personal touch

Recent assessments of business potential in the next five to 10 years constitute a combination of optimism on the growth and profit possibilities, and misgivings over the status of the individual in a system which is daily growing larger and more complex.

Surging population growth and rising living standards, most authorities agree, virtually guarantee new and expanding markets. But there is less certainty as to the individual's morale in this economy of opportunity.

Eugene N. Beesley, president of Eli Lilly and Company, sums up the misgivings when he says that the trend toward bigness in business, industry, unions and government should alert management in the coming decade to the danger of overlooking the needs of individuals, of making the individual seem smaller and less significant.

▶ *If this crisis is to be averted, Mr. Beesley says, personnel executives will have to find new ways of recognizing the needs of the individual worker*

and to convince line supervision of its responsibility for helping individuals grow. Antidotes prescribed by Mr. Beesley include strengthened person-to-person and group-to-group communications; "finding new and better methods to illustrate human values in the corporation's operations."

New light on consumer behavior

Who really makes the purchase decisions in a family? Research is turning up more evidence all the time.

Item: Between one fourth and one half of the major economic decisions made by U. S. families are shared by husband and wife. But wives do a little better in anticipating what major family purchases actually will be made—even the decision to buy a car. So finds University of Michigan researcher Elizabeth Wolgast.

Item: Husbands and wives in the middle income bracket make many money-matter decisions together. In lower income families, wives make more decisions, since household necessities make up a large share of what is purchased. In high income families, where there is more leeway in the budget, husbands and wives tend to specialize in the purchase practices. Those are findings of Prof. Marra Komarovsky of Columbia University.

▶ *A survey by W. R. Simmons and Associates Research, Inc., shows that, with young couples, the husband often worries as much or more about spending than does his wife. With older couples, the wife usually worries more.*

Are we running out of ideas?

One of the most respected American writers on management recently told NATION'S BUSINESS that he senses a disquieting lack of new and fresh ideas in our society. Addressing himself more specifically to the business community, the authority said that here he notes a distinct lack of bold and original thinking, a scarcity of really new product ideas, and a general let-down in initiative.

This view seems to be shared, at least in part, by advertising executive Charles H. Brower (BBD&O), who told an AMA audience in September that "too many of us are following, second-guessing; too few of us are leading."

▶ *Mr. Brower believes the high mortality rate on new product ideas has engendered a hesitancy on the part of many companies to try something new. What's needed, he says, is sharper thinking by marketing departments to improve the success rate in new product introduction.*

Undeserved praise impairs efficiency

Misused praise may keep a man from realizing his full potential, says Dr. Rensis Likert, director of the University of Michigan's Institute for Social Research.

"Recognition should always be given for a job well done," Dr. Likert says, "but when a man is praised for doing only a mediocre job in terms of his abilities, he may become complacent."

The real danger is that the manager too quick to dispense praise might shut off an individual's productive efforts by making him feel that he can get by with less than all-out performance.

▶ *"The art," says Dr. Likert, "is to know how much stretching an individual can take: If his standards are completely out of reach, he may be broken trying to attain them; on the other hand, if they are not high enough, his abilities will never be fully used." It follows, from Dr. Likert's point, that management needs to develop objective criteria by which to evaluate an individual's performance.*

NEW PROBLEMS CHANGE UNIONS' FUTURE

How labor leaders are revising their tactics and objectives in order to keep unions strong

LABOR UNIONS have entered a new period of development that may turn out to be as significant to our economy and way of living as labor's early struggles for recognition and the unionization of mass production industries in the 1930's.

The trends are toward:

▶ New kinds of unions that leaders hope will have more appeal for the growing number of professional, technical and other white-collar workers.

▶ A shift of union power from unions in manufacturing to those in services and transportation, just as influence has shifted over the years from railroad and mine unions to factory unions as the economy shifted.

▶ Larger but fewer unions, more centrally controlled, more democratically run, and more efficiently managed with the help of more staff experts.

▶ Less militant unions with changed emphasis in bargaining and other objectives.

▶ Increasing political activity and a larger role in overall community affairs.

The trends stem mainly from, and in some instances are being forced by, current and future problems, both within and outside the labor organizations. These include the spread of automation and other changes in industry; changes in the character of the labor force; and the problems of union size, power and corruption.

These problems have caused union leaders and staff professionals to re-examine the structure, operation and objectives of unions. They want to determine what changes are necessary for the labor movement to continue to grow and be an influential force not only in our economy but in the world of tomorrow.

Some leaders fear a decline in labor's influence if it doesn't adjust to the new problems. Everett M. Kassalow, research director of the AFL-CIO Industrial Union Department, which is headed by labor's chief planner, Walter P. Reuther, United Automobile Workers' union president, told a union conference discussing automation problems:

"Unless the labor movement does measure up to this challenge, it will enter a period in which it will decline in importance in American society."

Some changes already have been made; others are being discussed and studied by union officials and their advisers, by experts in labor-management relations, by students of the labor movement and by others, including Congress.

Congressional leaders hope to get legislation through next session to cope with some of the problems of union corruption and power revealed by the Senate rackets investigation under Sen. John L. McClellan.

Part of it almost surely will deal with internal functioning of unions, as did part of the Kennedy-Ives bill, defeated in the last session. Supporters of effective labor legislation look for the new proposals to have more teeth, however, than Kennedy-Ives, which the AFL-CIO wanted passed.

New workers, new unions

Automation, shifts in the economy from production to service industries, geographical shifts of industry, changes in population and age groups, the rising level and spread of education, and growing suburbia all raise serious problems for unions.

Leaders consider this, however, to be their main obstacle to future growth and influence:

How to break through the strong and historical resistance of white-collar workers to joining unions.

Studies by the Bureau of Labor Statistics, which

Trend: new planning by unions to appeal to growing number of professional, technical and white collar workers

Job trends affecting unions' growth

OCCUPATION GROUP	NUMBER EMPLOYED 1955	NUMBER EMPLOYED 1965	PER CENT CHANGE
Professional, technical & kindred workers	5,800,000	8,300,000	**+43.1**
Clerical and kindred workers	8,400,000	10,600,000	**+26.2**
Service workers	7,100,000	8,700,000	**+22.5**
Sales workers	4,000,000	4,800,000	**+20.0**
Craftsmen, foremen & kindred workers	8,300,000	9,900,000	**+19.3**
Managers, officials and proprietors, except farm	6,400,000	7,600,000	**+18.8**
Operatives and kindred workers	12,700,000	14,400,000	**+13.4**
Laborers, except farm & mine	3,700,000	3,700,000	—
Farmers and farm laborers	6,600,000	5,600,000	**−15.2**
Total employed	63,000,000	73,500,000[1]	**+16.7**

[1]Does not equal sum of figures because of rounding.

SOURCES: Bureau of Census (1955); Bureau of Labor Statistics (1965 projections).

UNIONS' FUTURE
continued

Commissioner Ewan Clague has laid before the concerned unionists, show the source of their alarm:

The largest increases in employment have been, and will continue to be, in predominantly white-collar industries, the ones unions have found hardest to unionize.

From 1919 to 1956, for instance, the proportion of nonfarm employment increased this way:

Wholesale and retail trade, from 17.4 to 21.8 per cent; government, from 10 to 13.8 per cent; service and miscellaneous industries, from 7.6 to 12 per cent; finance, insurance and real estate, from 3.9 to 4.4 per cent.

On the other hand, the proportion decreased in: manufacturing, from 39.3 to 32.6 per cent; transportation and public utilities, from 13.8 to eight per cent; and mining, from 4.2 to 1.6 per cent.

Employment is expected to increase from 63 million to 73.5 million, or 16.7 per cent, between 1955 and 1965. BLS projections indicate an increase of 19 per cent in nonfarm employment by 1965, to be distributed in this way:

Manufacturing employment is expected to increase less than 20 per cent. Meanwhile, white-collar industries will grow at faster rates:

Finance, insurance and real estate, 33 per cent; communications and utilities, 20 per cent; trade, 20 per cent; services, 20 per cent.

Contract construction employment will rise 25 per cent.

Two heavily unionized industries —mining and transportation—will rise only 16 and 10 per cent, respectively.

The trend from the standpoint of employment by occupations, which Mr. Clague describes as of "extreme significance to those labor organizations which have concentrated primarily, until now, on organizing production workers in factories," seems equally discouraging to union professionals. BLS studies show:

During the 12 months ending November 1957, factory employment of production workers decreased 700,000. During the same period, factory employment of nonproduction or so-called white-collar workers increased 80,000.

From 1947 to 1956, nonproduction jobs in manufacturing increased 15 times as fast as production jobs.

The practical impact of the growing proportion of white-collar workers in relation to those on the production line is revealed by those in the unions who watch such trends.

In the aircraft industry, one third of the workers are outside the groups for whom the United Automobile Workers union normally bargains, according to James Stern of the UAW staff.

In one large aircraft company, Mr. Stern complains, the UAW has practically all of the production and maintenance units, but speaks for only half of the employes.

Even in a farm equipment company, where the UAW has been able to represent the office as well as the factory employes, the advent of electronic computers has cut heavily into the number of less skilled office jobs, he points out. In the chemical

How changing growth shifts union power

1900	1930	TODAY
Mine Workers **115,500 members**	Carpenters **303,200 members**	Teamsters **1,368,000 members**
Carpenters **68,400**	Mine Workers **221,700**	Auto Workers **1,320,500**
Railroad Trainmen **43,200**	Railroad Trainmen **179,700**	Steel Workers **1,250,000**
Cigar Makers **37,100**	Electricians **142,000**	Machinists **947,000**
Locomotive Firemen **36,000**	Painters **106,200**	Carpenters **850,000**
Locomotive Engineers **35,600**	Clothing Workers **100,000**	Electricians **700,000**
Bricklayers **33,400**	Musicians **100,000**	Mine Workers **600,000**
Typographers **32,100**	Teamsters **98,800**	Ladies Garment Workers **450,800**
Painters **28,000**	Locomotive Engineers **98,200**	Hotel & Restaurant Workers **441,000**
Railway Conductors **24,600**	Street Car Men **97,200**	Hod Carriers & Laborers **386,000**

SOURCES: "Ebb and Flow in Trade Unionism," by Leo Wolman (1936) and National Industrial Conference Board.

Higher education and suburbs will handicap unions

industry, the impact of the white-collar growth was described by Otto Pragan, research director of the International Chemical Workers Union, at a Washington conference.

He said that today in chemical plants there are less than two production workers for each white-collar worker. In 1947 there were three. Assuming the same trend, the ratio in 1968 will be one to one, and by 1978 the ratio will be reversed, with two white-collar workers for each production worker, he forecast.

Union leaders see additional and somewhat different problems stemming from geographical shifts in industry, population changes within different age groups, rising levels of education and worker skills, and suburban living. For example:

Dispersal of industries to rural areas makes union organizing harder because workers in rural communities are less union-minded than those in the cities. Plants often are in out-of-the-way places. Workers are harder to reach as they drive to and from work. The number of employes is smaller, making for smaller, less attractive bargaining units.

Population changes will put most of the increase in the labor force by 1965 in the groups under 25 and over 44 because of the low birth rate of depression years and high birth rate of the 1940's. There will be a substantial increase, too, in working women who are over 35. There will be almost no change in the group aged 25 to 44, while the number from 25 to 34 years of age will actually decline 700,000.

Unionists view these figures as adding up to more workers who are apathetic or even hostile to unions. Youngsters bear no scars of the big depression and have known only good times. This, in the words of Peter Henle, AFL-CIO assistant director of research, "has given them a rosy, some might even say a lackadaisical, attitude toward life." They are also believed to have little interest in their job conditions or a union; young women expect to quit after they marry or have children; young men often have outside interests beyond their jobs.

Married women who work to supplement family income are less interested in unions than their husbands because they are less interested in their jobs as a source of steady family income.

Mr. Henle also points out that the influx of youngsters and older women will bring an increasing demand for part-time work, which will raise additional problems for unions in many industries. BLS expects a 35 per cent increase in part-time workers by 1965.

The level of education and skills is rising. The proportion of persons 18-21 attending college increased from eight per cent in 1920 to about 33 per cent in 1955. In the next 15 years, the number graduating from college is expected to double.

The level of skills in industry will rise from the double impact of education and the demands of industry as a result of increasing technological developments.

Workers with higher education and income are generally believed to consider themselves closer to management than workers at lower levels with lower incomes.

While formal education is not of itself hostile to unionism, its rise creates new problems of organizing and probably will require unions to consider new methods and appeals, in the opinion of John T. Dunlop of Harvard University, well known in labor-management circles.

"Until unions adapt to the changing educational levels of new members, there tend to be new resistances to union growth," Mr. Dunlop said in one of a series of Michigan State University lectures on the future of industrial relations.

The suburbia complex, which more workers are acquiring, increases resistance to unionism. Class lines are blurred in the suburban community; the employer-employe relationship is less pointed. Workers, owning homes, are more responsive to family and community influences than they were when they lived in working-class neighborhoods close to the job.

Just how these problems affect unions and what efforts are being made to solve them has received much attention in labor circles.

Take union operations and structure, for instance. The large industrial unions have to find ways to satisfy the interests of the professional, technical and other skilled groups, who don't like being subordinated to the desires of the until now larger production worker group.

Mr. Reuther's UAW last year revised its constitution to give mem-

A PREDICTION

"I believe that the time is coming when all the wheels—the railroad wheels, the truck wheels, the air liner wheels and the wheels in the pilot houses—will be moving in closer concert for the good of agriculture and industry.

"I don't believe we need common ownership in transportation in order to work more closely together. I think that joint rate and service arrangements are just around the corner.

"I feel certain that we can have truly coordinated transport in this country, given reasonable initiative and at least a minimum of good will and good intent."

Guy W. Rutland, Jr., President

AMERICAN TRUCKING ASSOCIATIONS, INC.

WASHINGTON 6, D. C.

MADE BEFORE THE PITTSBURGH INSTITUTE, TRANSPORTATION ASSOCIATION OF AMERICA, SEPTEMBER, 1958

UNION'S FUTURE

continued

bers in technical and skilled trades a larger voice in running the union and the right to veto new contract provisions affecting them.

In pleading for the changes at the union convention, Vice President Leonard Woodcock told the delegates that, unless they were made, the UAW could not hope to organize engineers and technicians, "and if you can't organize them you will not organize the office workers."

The effect of this is to modify the industrial union setup by giving it a flavor of craft unionism. AFL-CIO President George Meany, a plumber by trade, once twitted Mr. Reuther about this, asking him if he had changed his mind about industrial unionism being the answer to all labor problems.

Mr. Reuther is reported to have replied that the changes do not mean that industrial unionism isn't working. They are being made, rather, he said, to make industrial unionism work more effectively.

A combination of industrial and craft unionism in the same union is the result. Many of the old-line AFL craft unions, for instance, now take in members on an industrial basis. They include the electricians, machinists, painters.

With the obscuring of craft distinctions as industry introduces new processes and materials, the combination industrial-craft union would minimize jurisdictional problems.

Centralized control

The new problems are also leading toward more centralized control of unions. Technical problems related to automation, pensions, insurance plans and other matters, and the growing importance of government regulations, make it necessary to have a staff of experts at national headquarters.

This, with industry-wide and national bargaining, is causing the transfer of both power and functions from the local to the national level. It is creating other internal problems as local unions have less and less responsibility and members lose interest in the union.

George W. Brooks, research director of the International Brotherhood of Pulp, Sulphite and Paper Mill Workers, believes that a general shift in power and control from union members to union leaders is "the great change in American labor unions during the last 20 years."

He points out, too, that union peo-

Management may find it is easier to get along with unions in the future

ple today are putting a great value on bigness, believing that a union should be big to be effective. In the pursuit of bigness, he says, union members have been willing to give up a good deal of local autonomy.

A number of unions have merged in recent years—paper makers and paper workers, oil workers and chemical workers, barbers and beauty culturists. More mergers will come.

Mr. Brooks sees advantages to management in the trend toward centralized authority and more professional type union leadership. The new union leader, he says, is more management oriented than the old-line dedicated trade unionist; he must make a good appearance and be able to get along with management; it is not nearly so necessary that he be able to capture and retain the loyalty of workers.

Mr. Brooks also thinks that the shift in power to the national union strengthens management's hand in introducing automation and other technical changes. This is because national leaders, thinking in terms of the good of all the members, are less uneasy than local leaders about the temporary loss of jobs.

A new development just this year offered a good indication of how far labor is going in the centralization of power. The AFL-CIO Executive Council appointed two of its members as representatives of the AFL-CIO to sit in on negotiations between Montgomery Ward and the Retail Clerks International Association. Heretofore, the parent federation had avoided intervening directly in a labor dispute involving an affiliate.

Teamsters' Union President James R. Hoffa, accused of corrupt union management by the McClellan Committee, is trying to centralize union power by working toward national contracts in trucking and planning an alliance of major transportation unions.

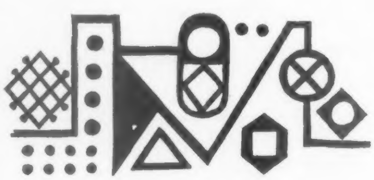
Tactics

The hoped-for increase in union membership among younger workers, women and white-collar groups also raises problems of bargaining objectives, tactics and militancy.

Different groups have different concepts of security, union leaders find. Younger workers and women are not too interested in seniority as a protection against layoff. A production worker who wants layoffs to be based on straight seniority may not understand why the professional or technical employe wants to use ability as the test.

Dr. George W. Taylor of the University of Pennsylvania believes that in some places adherence to seniority in promotions and layoffs has been carried too far to serve the best interests of all the employes, and that industrial changes have tended to impair the usefulness of seniority for job security purposes.

The method of payment may be changing from hourly and incentive pay toward salary compensation. One union leader believes that automation will so lessen the differences in jobs between white-collar and production workers that hourly



wage payments may become inappropriate. Blue-collar workers, he says, may wear white collars and draw salaries.

Dr. Taylor sees a trend away from incentive wage systems as rapid technological change makes them less justifiable.

As automation increases risk of job loss, unions show more interest in bargaining for protective measures, Dr. Taylor points out. He cites severance pay, supplemental unemployment benefits, moving allowances, vested rights in pensions, extension of seniority rights beyond the limits of a particular plant.

Dr. Taylor also points out that changes in union membership create a diversity of needs which have to be reconciled.

"A reconciliation of such intra-union differences has become a mighty important function of the union," he says. "It seems to me that an important kind of collective bargaining is developing within the union as a prelude to collective bargaining with the employers."

It is not unusual now for a union to bargain for a larger wage increase for its skilled members, such as the extra eight cents an hour the UAW bargained for tool and die and other skilled employes in the automobile industry.

Mr. Reuther sees a four-day work-week coming in industry generally by 1975, and in the automobile industry before that, as a result of automation and peaceful uses of atomic energy. He also talks about the need for bargaining on a community program, not a union program—concern for the retired worker, medical care for the community, severance pay.

He hailed the recent Ford settlement as helping to meet pressing human needs because of concessions made to those temporarily laid off, those permanently unemployed because of plant shifts, and retired workers. Preliminary UAW bargaining proposals included price cuts for consumers through rebates to automobile purchasers.

Political activity

This Reuther pattern of something for everybody probably reflects general union efforts to achieve an identity of having common cause with the entire community for betterment, and to erase the old selfish pressure group conception.

It is consistent with labor's plans to take a greater part in community activities and politics and be recognized as a force for good, which leaders hope will also help attract more white-collar members.

But one of the first tasks it feels needs to be done is to remove the stigma of labor corruption and lack of democratic practices which the McClellan Committee has exposed in some unions.

The AFL-CIO is doing what it can through the adoption of Codes of Ethical Practices and the expulsion of corrupt affiliates. But, as even Mr. Meany admits, it cannot do the complete job and needs help from Congress.

In this connection, one of the disturbing prospects is that the union exposed as most corrupt—the teamsters—besides being the largest single union with 1,368,000 members, also has the brightest prospect for future growth and power.

Individual labor union influence rises and wanes over the years, usually following the trend of the industry its members serve. The railroad workers and miners yielded influence to the giant unions in steel and automotive industries as industry expanded after the depression. Now the auto and steel unions are

yielding to the teamsters as the service industries grow.

Mr. Dunlop believes the teamsters have the strongest growth potential because of "the enormous strategic position of the truck in the American economy."

Other growth unions, in his view, are the electricians, plumbers, machinists, government employes and butchers because of increasing demand for skilled labor, expanding government and, in the case of the butchers, their alliance with the teamsters in a drive on the food industries.

The UAW's Mr. Stern says that unions in manufacturing not only may lose their numerical superiority over unions in service fields, but that the next decade may conceivably see the emergence of a new group of professional unions rather than an extension of the unions of today into the professional field.

Labor's growing interest in community activities is tied closely to its political interests.

President Joseph A. Beirne of the Communication Workers, chairman of AFL-CIO Community Services Committee, says that the AFL-CIO must increase its community relations work as a public relations gesture to help remove some of the stigma left by the McClellan Committee disclosures and to help organize white-collar and other workers.

"Organized labor must engage in more, not less politics," he says.

James L. McDevitt, director of AFL-CIO Committee on Political Education, says the AFL-CIO plans to step up its political activity on a year-round basis, every year, with political education classes being held down to the local unions. Mr. Meany told NATION'S BUSINESS that the AFL-CIO is increasing individual participation in politics, individual registrations, individual dollar donations, and more activity at the local level.

He said that unions may be less militant and the number and intensity of labor disputes may decrease as both sides develop more understanding of labor relations problems, but he does not feel they will be any less effective than they have been.

None of the top labor leaders sees labor's increasing political activity as leading to a third political party.

Mr. Reuther has said that the American labor movement is "overwhelmingly committed to oppose the creation of a third party, or a labor party.

"A political party must represent a much broader cross-section of the American people." END

Six policies increase will to work

Employe attitudes on these points are important to you

Smooth and productive operation is a goal of every businessman, and the job can be easy or difficult depending upon the attitude of employes. Discovering how employes feel has been one of the activities of Douglas Williams, of Douglas Williams Associates, management consultants of New York City. Mr. Williams and his organization have questioned thousands of workers in all kinds of industries all over the country. In this interview with NATION'S BUSINESS *editors, he summarizes important survey findings that all businessmen can use.*

Is current business interest in employe attitudes overdone?

Quite the contrary. A management couldn't avoid being vitally interested in its employes' attitudes today, even if it wanted to. There are many reasons for this—but one underlying factor is so important that I'll restrict my answer to it. We have a highly educated population today; and people are more demanding of management, which finds it necessary, on many scores, to explain why it is doing certain things, if employes are to support its actions.

What is the first ingredient necessary to favorable employe attitudes?

I'm going to answer, "Pay."

I cite this first, in the sense that a jobholder has to satisfy certain minimum economic requirements. He has to provide living quarters, food, shelter and clothing for himself and his family—not to mention education and recreation. He might prefer the working conditions, the atmosphere of the plant paying $1.50 an hour, but he still might have to go to a place where he could earn $1.90, in order to "make out" at the end of the week. In some cases, he may even have to take a second, part-time job.

There has been so much talk about pay being far down the list of job satisfactions that it becomes easy to forget that there is a minimum requirement which is primary. If a man has family financial obligations he can't meet on $1.50 an hour, he won't have a favorable attitude toward a job paying that scale. In discussing pay, I should bring out the aspect of security. Naturally, it is important to an employe to be able to depend on the durability of his job.

Where do fringe benefits, insurance and pension plans fit into this?

It seems to depend on the employe's age. By and large, younger people don't care about such matters. Perhaps if they know another company has better arrangements than their own, they will point it out as a minus; but it is not in the forefront of their attention.

On the other hand, these matters become increasingly important as people grow older. Sometimes to the point of preoccupation.

It's interesting, too, that people's attitudes toward these benefits depend a great deal on how much they know about them. More than once we have done studies for companies with roughly the same fringe benefits. In one organization we would find a great deal more appreciation for the programs than in the other. The explanation for this always came down to the fact that one company would have taken the pains to explain its benefits, and answer questions about them.

After basic economic requirements are satisfied, what comes next in building positive employe attitudes?

I would say fairness of treatment.

When we compare companies that have good employe relations with those that are less fortunate, one difference always comes through. Employes of a company with favorable relationships believe that the management intends to be fair in its policies affecting them as a group, and in its dealings with them as individuals.

An employe has to be able to feel he won't be fired, or transferred to a less desirable job, unfairly; or be penalized for production failures beyond his control.

Similarly, he has to be able to feel that if he works hard and improves his skills, he will receive the promotions that are his due; that his efforts won't be callously or casually overlooked.

Incidentally, I'm still talking in a materialistic sense. This factor of fairness is important to a man's economic advancement and security.

Fairness in the nonmaterialistic sense is also highly significant. Nothing will depress morale faster than a belief among employes that favoritism is rife. If they think it takes pull, or knowing the right person, to get ahead, resentment will result.

This shows up on small counts, too. Take two departments in the same plant. One suddenly starts to shut down five minutes earlier than the other. Five minutes is a short time. Nevertheless, in the second department, employe reaction will be swift and intense.

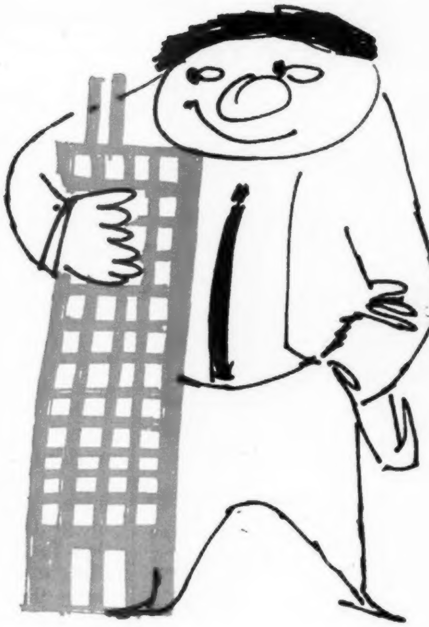
After economic satisfaction and fairness of treatment, what's next?

Now that the term employe morale has been used, perhaps we should define it. At least for purposes of this discussion.

We think of it as the will to work. I don't like to think of it as job satisfaction.

We believe that in some people's minds job satisfaction has come to connote a state of contentment—even complacency. This is not consistent with a desire to work at the top of one's effort. That, to us, is what high morale is; what a company's objectives should be in the attitudes it tries to develop in its work force.

Naturally, a man has to like—to be satisfied with—



Employes want to be proud of their organization

most aspects of his job, if his attitude toward his work is going to be favorable. At the same time, if he isn't dissatisfied with some things, it might mean he just isn't smart enough to see where improvements are called for.

In other words, a certain amount of criticalness in employes is healthy. Good morale is often characterized by a desire for improvement, a feeling that "some changes are needed around here; let's make them."

Let me give you an example. In our surveys, we often find a certain proportion of the people in an organization dissatisfied with the amount of information they are receiving. They may really blast the management for not communicating.

In my opinion, this is good. Such employes actively identify themselves with the company's interests. That kind of dissatisfaction leads to progress.

What else is needed in gaining this will to work?

I would pick job interest.

This factor of job interest is getting to be more important all the time.

Today's employes want more from life. They want more from their jobs. Although their work has to give them sufficient economic reimbursement, it must also fulfill other needs—important needs. Needs that are nonfinancial.

One of these needs, for more and more employes, is the satisfaction of work well done. This means a job that provides interest, even challenge. The tendency in some industries is for many types of jobs to get

Laying out jobs to make them interesting aids efficiency in the long run

broken down into simpler and simpler parts—more routinized, less rewarding, less meaningful.

There are, of course, people who want the job that requires no effort, so they can daydream. But the problem facing us is that there are too many dull jobs in plants and offices, with too many people who get no sense of accomplishment out of working at them.

So, I am in favor of job enlargement; combining two or more tasks, integrating different functions, so that the jobholder will have something to be motivated about—something that he can look forward to when he comes to work.

What if the most efficient way to get the work done results only in routine jobs?

The best I can say is that this area of job interest needs study. The answers to such questions haven't been worked out.

However, I think the following two-part hypothesis is worth testing:

1. That it is vital to a company's success to have employes who are motivated to work toward the top of their effort, to cooperate, to identify their interests with the company's success.

2. That to achieve this spirit, jobs should be designed with an eye to the interest and sense of accomplishment they provide the employe.

In studying this matter, we may find that the asset of employe motivation and support will account for a higher level of productivity than having jobs broken down into such simple tasks that you get an apathetic employe body.

So job interest is the third requirement. What's next?

Well, the next point can't be relegated to fourth place. It's all-important. I mean the integrity of the company.

People want to work for a company they can respect. They want to be proud of their organization—its reputation, its product or service, its worth-whileness in the community. If they are asked where they work, they want to be able to reply with the name of an outfit with a good standing.

If a company departs from ethical standards in any of its dealings—not only with employes, but with customers, suppliers, stockholders, neighbors in the community, and so on—low employe morale results. This extends to matters such as a company not keeping up its equipment, or letting the appearance of its buildings go downhill.

I can think of a plant which was starting to allow poor quality goods to get out into the market. This seriously affected employe attitudes there. Conditions of pay, working conditions, work required, all stayed the same—and by this I mean in a favorable sense—but the defection on quality hurt employe spirit.

I know of another company, about the same size, making a similar product. The president could be described as just plain tough. Fair, but really tough. And employes griped about the work that was returned to them because Quality Control set such high standards.

But their morale was higher than in the other plant. They were able to take pride in their company's product. And tough though he was, they respected the president. He was able, and he was on the level.

What would you list next?

Communications—in the sense of a company atmosphere which encourages a full exchange of information and ideas up, down, and across.

It is not enough today for a company to have good policies, good intentions. It must explain and inform.

We were talking about product quality awhile ago. It brings to mind an incident in a different company. This concern gained a new customer which handled a lower priced line of goods than the company usually sold. For this new market, they started producing a lower priced—and accordingly lower quality—item.

The new circumstances weren't communicated to the employes. They didn't know certain batches of the product were scheduled for the new customer—with different quality standards. They concluded the company was intermittently jamming through some batches which weren't up to standard—trying to get away with it.

The company was able to clear the air when it learned what was trou-

bling the employes. But the misunderstanding had cut deep while it lasted.

What mistakes do managements make in running their information programs?

They misjudge what the employe already knows, for example. A well-known newspaper columnist once observed, "Never underestimate the intelligence of the people; never overestimate the amount of information they have." Employes frequently lack facts, often don't have adequate knowledge—particularly about economic matters.

One time we interviewed the employes of a department store. Included in our sphere of interest was their idea of how much profit the store made. The interviewer always carefully clarified the question: How many cents out of a dollar, what percentage of sales—after *all costs:* cost of goods, salaries, building maintenance, etc.—was profit.

Some clerical employes, who would be able to say the store's average markup on goods was a third, would go on to speculate that the profit was higher than a third; arithmetically impossible, of course. Others guesstimated percentages much higher than the correct figure of two per cent. The significance of this is not that their figures were high. The point is, many employes do not have an articulate concept of what profit is—what it means.

Business has its own vocabulary. Businessmen get accustomed to using it with each other. But terms such as net, gross, depreciation, markup, reserve, etc. are meaningless jargon to many employes.

This is an important principle. Most businessmen know it. But they often forget it in the rush to tell employes the score.

I think, too, that information programs may misfire more often than is realized.

We once tested a film for a company, fortunately while it was still in unfinished form. The intent of the film was to demonstrate to the employes that the company stock was widely held by people in all walks of life—not restricted to a few secluded, wealthy people.

Our procedure was to show this film to employes, then ask them what they thought of it. Almost universally, the first response was a question: "What's the purpose of this film?"

That pretty well sums up how far the film had missed its target.

I remember one girl who said she did learn some things from seeing

Open lines for frank communication are a big booster for worker morale

the film. She said she now realized that a newspaper boy, an elderly couple, the corner grocer, and similar people owned stock in the company. So they could, she supposed, be thought of as capitalists. Nevertheless, she said: "I don't want anybody ever to call me a capitalist."

It was a dirty name in her mind.

If management had appreciated her image of capitalism, it would have used a different approach.

For management to do the best job of communicating, it needs to gain a more sensitive understanding of employe thinking and feeling. It's not uncommon for certain kinds of economic education programs to emphasize to employes, for instance, that they're better off than a Russian worker. I don't believe the employe doubts this, but that's not what is on his mind. More likely, he wants to know how come his rate is lower than the rate of the man on the next machine. Talk to him about the Russian worker, and you don't have his attention.

Are you saying that management's communication does not include enough listening?

That's right. And I would go on to say that, as a result, some managements talk too much. In the sense that they put out reams of material on topics that aren't of genuine interest to the employe. But the need for pertinent information still exists.

How would you describe good communications?

I've never forgotten one girl I interviewed who said she liked her job. I asked, "Why?"

She said, "I like it a lot better here than in a factory."

Well, it *was* a factory. As a matter of fact, she was on an assembly line. But, in addition to the fact the premises were bright and clean, the communications climate was good. The atmosphere was informal. She could ask anyone any question, and get a cheerful, friendly, open answer. If the company was going to make a change affecting her, they'd tell her about it—probably even solicit her ideas regarding it.

Once this company lost an important order.

There were about 500 girls in the department involved. When they found out about the order, a group of them went to the manager and said, "If we lost this order because our cost was too high, let us know if it is necessary for us to step up our production."

I don't think I ever heard of anything like that before. The interesting part is that the manager leveled with them. He said, "Well, it wasn't due to the cost we lost the order; I appreciate your attitude, but I don't want to parade under false colors."

There was real communication going on there.

Are there any important requirements left?

Yes, one of the key requirements. I've left it for last on purpose. It's a significant one to end on.

I mean caliber of supervision.

In an employe's eyes, his supervisor is the management. The supervisor is the point of contact for the company's policies.

There are certain nonfinancial rewards that are important to an employe. Among these are getting the answers to questions on his mind, being assured of a genuine interest in his ideas, knowing that he'll be consulted on changes that affect him, being given an opportunity to contribute to the success of his unit, and receiving credit for work well done.

His boss is the source of satisfaction—or dissatisfaction—on scores such as these.

Similarly, the man's supervisor plans and schedules the work, issues instructions as to how it's to be done, and is responsible for at least a certain amount of help and training on the job. These factors weigh heavily in whether the employe is able to work effectively, to experience a sense of accomplishment in his job.

This brings up another point. A supervisor has to know his stuff—about the work process, problems of materials and supplies, the mechanics of achieving quantity and quality, etc.

One hears talk to the effect, "You don't need to know the technicalities to be a good supervisor; you just need to understand people, so you can be a good leader."

Not true, according to our experience. Employes have a good deal of

bench savvy. They'll soon spot a foreman who can't recognize good results and poor results. They won't respect him. They'll probably proceed to pull the wool over his eyes.

How does a company go about getting good supervision?

This is difficult. Many companies have expanded so fast that, realistically, they couldn't have been expected to keep pace with their development with a top grade supervisory force.

Nevertheless, high caliber supervisors are so essential to a company's success that it must work away at the problem unceasingly.

Management policies should stress coaching and appraisal of subordinates by superiors, assignment rotation for experience, increasing the delegating of authority downward—and, of course, formal development programs for supervisors. They need continued training opportunities.

Supervisory development is a whole subject in itself. Just one comment before we leave it. In companies where supervisory training exists, but there is little or no development programing for higher management people, the supervisory training doesn't take. The foreman is not encouraged—maybe he's discouraged—by his superior, from putting new principles into effect. The superior has not gone through a new learning experience himself. He's not sympathetic with the supervisor's new outlook, new ideas. Result: The supervisor knows better ways to do things than he is allowed to. He becomes frustrated and cynical.

We have been noticing lately, in companies that have programs of development for higher executives, that supervisors notice the difference in their superiors. In these cases the supervisors are motivated to apply in practice what they have learned in the training program.

This kind of education should start at the top, in other words. What else?

It might seem mundane to refer to the working conditions: cleanliness, safety, the cafeteria, good tools and equipment. Certainly a company can suffer badly from misses on these.

Otherwise the foregoing matters pretty well cover the major points that we observe in survey after survey.

If a company can score well on the factors discussed here—pay, fairness, job interest, integrity, communications climate, able supervision—they'll attract, keep, and reap the benefits of a high grade, well-motivated work force. **END**

WHY DID THE PLANT SHUT DOWN?

When the factory where Bill Richards worked was forced to close, Bill lost his job. That was a blow to him—and set him to thinking. He wanted to know why the plant shut down. So he asked some of his neighbors.

He asked the corner grocer, the company president, a widow who was a stockholder, a salesman for the company, and the former president of the union. They gave him their answers.

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—The B. F. Goodrich Co., Akron, O.

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—Illinois Manufacturers Association, Chicago, Ill.

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—Eastman Kodak Co., Rochester, N. Y.

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—Rhodes of Seattle, Seattle, Wash.

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TURN POOR WORK HABITS INTO GOOD

Better job performance will come from these eight steps

NO SINGLE TOOL or technique of scientific management gives a company more competitive advantage than a staff of people whose work habits are good.

Where do employes get their work habits, and how can they be improved?

A work habit is built up from four basic sources:

1. The early training, including schools and family, which the employe brought with him.

2. His own experience in the company, especially the earliest experience. Many work habits are set the first day on the job, and unless corrected never substantially change.

3. The group with which the employe is located. If he's with a hard-working bunch he'll put out more to keep up with them; if he's with a more casual team he'll match his pace to theirs, otherwise they won't accept him.

4. The boss. Responsibility for work habits can be laid almost fully in his lap, since he is in a position to make amends for the other three causes through constructive action.

Basically there are eight principal ways in which the boss can change work habits of an employe. Sometimes a single one will do the trick. In more persistent cases it will take a combination of all eight. The formula must be tailored to individual circumstances. While psychologists can explain many intricate motivation and aptitude factors, it's more practical for the working manager to approach the subject from the viewpoint of work habits than to plunge too deeply into the employe's libido and how he reacted to his baby-sitter. It is primarily job performance that interests the manager. If the employe lapses into lazy habits outside the job, that shouldn't be of too much concern.

Admittedly this is a rule-of-thumb method, but it gets at the main point and is relatively uncomplicated. The eight ways in which work habits can be improved include:

- ▶ Watch the work pattern of employes.
- ▶ Replace the bad habit with a good one.
- ▶ Start the new employe right.
- ▶ Show the employe a reason for changing.
- ▶ Try the job yourself.
- ▶ Set a good example.
- ▶ Work through the informal organization.
- ▶ Get participation.

Let's see how each of these steps works in practice:

Watch the work pattern

Both simple and complicated jobs will settle into repetitive patterns of work activity. This pattern may be of the employe's own devising, or it may be taught. Once acquired it will be adhered to. This pattern is characteristic of complex jobs as well as simple, routine ones, except that the pattern may be more extended in scope and is often called a procedure.

These work patterns are not rationally evaluated. In the day-to-day routine of the job a person will follow the repetitive cycle in a more or less unthinking manner. This isn't necessarily undesirable. Without such patterns, our lives would consist of a series of deliberations and decisions about such things as walking, chewing, writing, and other routine things. The rub comes when we build into our routines a lot of time-consuming activities that mean we don't get done the things we would like to get done. We build in trips to the water cooler, to the stock room, social chats with fellow workers simply because we haven't formed the habit of bearing down on the top priority jobs ahead.

The man with the poor work habits spends as much

Watch unproductive work pattern

Sometimes tough chore helps

energy as the hard worker, but fritters and putters around with trivia. Observing the pattern to improve work habits means watching for this shuffling and duplication.

Replace a bad habit with a good one

The primary tool in improving work habits is substitution. After getting some idea of the major patterns and finding where the time-robbing portions lie, replace them with something productive. This means breaking the cycle that adds up to undesirable parts. In some cases this can be done by a physical re-arrangement of the work place at the time the change is introduced. Habits tend to be associated with physical activity. It's also an axiom that the worker will more readily accept the new method if he's allowed to participate in the change which affects him.

In one instance a manager was able to combine a frank chat with his worst offender in work habits with a change in desk location. By breaking his routine of work-a-little followed by head-for-the-water-cooler and other similar dilatory tactics he was able to show the man that the major block to his effectiveness and personal advancement was that he was in a rut. The change of scene, coupled with some candid talk, did the trick.

In another case, replacing a bad habit with a good one took the form of pitching a man with some sloppy work habits a tough chore first thing in the morning. Where he previously had started off the day with fumbling, foot-shuffling and floundering that sometimes lasted all day, he now found that he was required to pull together some important information from overnight quickly and accurately and have it on the boss' desk within 20 minutes of starting time. This momentum began to carry on into the rest of the day.

Start the new employe right

Many a work habit of a decade's standing began with the first morning the man began on the job. A new employe will be most eager to succeed, and will accept the work cycle presented him by the first instructor or coach he encounters. This means that, before the cycle becomes habitual, it should be studied for idle and observation time and the blanks filled up. With good training, proper method and procedures will be taught the first time the man encounters the job. The induction step can't be entrusted to people whose work habits are poor.

More than one manager has been heard to say that he can't waste time doing a full-scale training job for the new man. Pressed for details, it often turns out that the reason he hasn't time for training new employes is because he's patching up the faulty training of old ones who, like the present recruits, couldn't be adequately inducted because of the pressures of time.

Show a reason for better habits

Changing work habits with any degree of permanence requires some motivation. In some instances profit-sharing, incentive, or bonus plans already exist and are a ready-made reason for the employe to be more effective. If it can be demonstrated that the new work pattern will benefit the man, he will tend to hang onto it.

Where no monetary incentive exists, it often helps to show him that the new method is really less fatiguing, less dangerous, or eliminates some difficulty which he has been experiencing. In some cases opportunity to advance is good motivation. Where these elements are lacking, it may be necessary to stress benefits to the company.

In these instances it can be pointed out that by working more effectively he actually increases his security and opportunity in his job, since he improves the company's competitive position.

In a few instances where a youngster without prior work experience or an employe who has been spoiled by poor supervision is involved, more strict action is

Try the job yourself

demanded. After all explanation and selling is complete, it becomes necessary to inform the employe that he must change or disciplinary action will follow. It's often advisable in such cases to make the disciplinary procedure a three-step one, letting the employe know each step from the beginning.

1. Inform the employe his work habits are not up to company standards; show him evidence and suggest some specific steps to improve them.

2. If the employe ignores or refuses to follow the suggested steps he should then be warned that he will be disciplined. It's better to be specific than to generalize.

3. Continued lapses from better habits should result in temporary layoff, or possibly discharge. In any event, don't transfer him to another department within the company unless he shows some evidence of physical or mental inability to do the job the way you want it done. Transfers have no magic power of improving work habits, and are only justified when they bring about a better fit between man and job.

Try the job yourself

In some cases it's a sound idea to take a stab at doing the job yourself to find out if the employe actually has good work habits but is performing at what seems to be low output because of things in the job which aren't apparent to the naked eye. Many an experienced employe is working at peak performance but makes it look simple to outsiders. He may have vastly greater efficiency than you imagined. This is often true of the best employes. Before sailing into the person who seems to be relaxed and comfortable on his job you'd better quietly take his place for a little while. It's not always easy to judge how hard a task is from observation.

Set a good example

Not long ago I walked through a medical supply plant with a company executive. Several yards away he spotted a small piece of debris on the floor. Breaking off our conversation he walked over and picked up the scrap and put it in his pocket.

Set good example

Show reasons for better habits

"I wouldn't think of letting that piece lie there," he said, "not after all the pressure I put on people to maintain cleanliness and good housekeeping in the plant."

This manager knew that unless he demonstrated habits of good housekeeping he probably couldn't expect others to have them either, no matter how loudly he ordered them.

The work habits of the boss have a way of transmitting themselves to the entire organization.

Tie this together with a genuine interest in how well people are performing on their jobs, and periodic talks to let them know how they can improve, and you are on the way to better work habits in the organization.

Use the informal organization

One of the most influential factors in shaping work habits is the work group to which a worker is assigned. All workers join informal groups based upon occupational groupings or any one of a dozen or more sentimental or emotional ties such as sex, age, school attended, occupational groups, physical surroundings of work and so forth.

The important thing for the manager is knowledge that these cliques control output of their members, and exercise controls through exclusion and ostracism of people who don't stay in line. A good worker may be soldiering because he doesn't want to be on the outs with his fellow workers. The key to working through informal groups in the work force is the first-line supervisor who is in a position to belong to both management and the clique.

With such leadership in first-line positions, the work habits of individuals will be policed by the group. Without group support of company standards

of performance there is little hope of forcing individuals to swim upstream against their fellow workers.

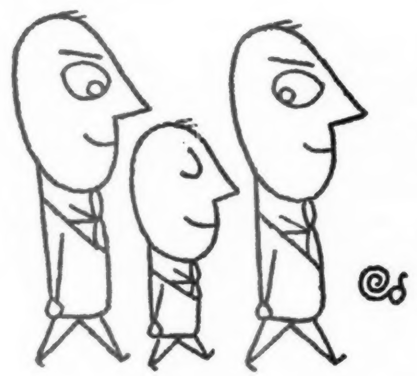
Get participation

One of the surest ways of getting better work habits and making them stick is to get the wholehearted cooperation of the worker through asking his help and support in improving his own skill and habits. As the expert on his job he can offer more concrete suggestions than anybody.

Once he is involved in changing the pattern it stands a better chance of getting changed for good than if a hundred experts study it and tell him what he should be doing.

Since changed attitudes are vital in changing work habits, participation is another way of saying we get the worker involved in seeing the importance of doing a better job.

In one eastern plant where hand operation on an assembly line was the limitation on output, management let the girls set the speed of the conveyor which carried their work to them. The girls not only exceeded records previously set, but produced so much they caused a problem in the packing station which followed. Asking people to set their own pace doesn't mean they will set it too low. Convinced that management is genuinely interested in them and their views, they will set it higher than might have been anticipated.



Group keeps members in line

Work habits can only be changed by leadership. Experience shows that today toughness alone won't do it.

—George S. Odiorne

REPRINTS *of "Turn Poor Work Habits into Good" may be obtained for 10 cents per copy or $6.75 per 100 postpaid, from Nation's Business, 1615 H. Street, N.W., Washington 6, D. C. Please enclose remittance.*

CHOOSE COST FIGURES FOR BETTER DECISIONS

Here's what to include, what to leave out

A BUSINESS DECISION, or any decision, is best understood as a choice between two—or several—alternatives. It can be yes or no; this, that, or the other; now or later. But always it is the selection of what appears to be the most desirable of alternative courses of action.

This fact points up a major principle of cost determination:

In examining the relative costs of the alternatives involved in a given decision, only those costs which are different for the various alternatives should be considered. The costs which are common to all alternatives may be ignored completely.

This means that cost figures developed for periodic financial statements or for income tax purposes are inappropriate guides for decision-making. Cost figures must be tailor-made in terms of the specific purpose for which they are to be used. Rarely, if ever, is a cost computed for one purpose likely to be useful for any other purpose.

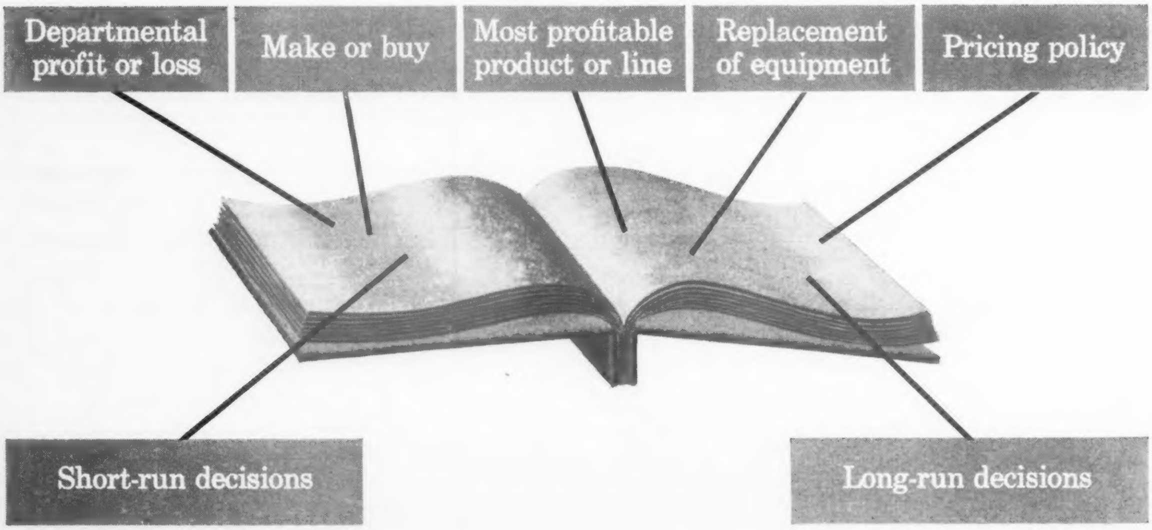
Since only those costs which will be affected by the decision need to be considered in making the decision, we are able to arrive at some principles of cost determination as management aids:

1. Since the past is common to all alternative future actions and cannot possibly be affected by choice of alternative, past costs—historical or book costs—are not pertinent to management decisions. Since all decisions affect only the future, only estimated future cost differentials between alternatives should be considered. Past costs may be useful as a basis for estimating future costs.

2. Frequently some of the costs pertinent to the decision have never appeared in the books of account—and never will. These include imputed interest on investment, particularly contemplated investment, lost opportunity costs, and others.

3. The longer the time involved in the decision, the fewer the costs that are common to all the various alternatives. For short-run decisions many costs will likely not be affected by the choice of alternatives—and they may be ignored. For long-run decisions these same costs are likely to be affected by the choice of alternatives—and they

MANAGEMENT should never ask for cost information without stating in detail the purpose for which it will be used



must be considered. For very long-run decisions practically all costs are variable and must be counted.

At this point it should be clear that management should never ask for cost information without spelling out in great detail the purpose for which it is to be used. It should be equally clear that the accountant should not supply cost information to management until he understands fully its intended use.

Before illustrating the foregoing principles by application to specific cases, let us summarize them briefly:

1. Costs must be "tailor-made"; the components must be selected, priced, assembled and interpreted in terms of the business decision involved.

2. Only costs that will be affected by the decision need be considered; costs that are common to all alternatives may be ignored.

3. Only estimated future costs are pertinent; past costs are useful only in estimating future costs.

4. Imputed costs, lost opportunity costs and other nonbook costs may be pertinent to the decision.

5. The longer the period involved, the more likely it is that a given cost will be affected by the decision —and will need to be considered.

This will be clearer if we apply our principles to a few actual business situations. Let's first see how a department might use them to decide what course to take with a weak department.

Case No. 1

The monthly operating report prepared by the controller shows for Department W the following information (condensed here):

Net Sales	$400,000
Cost of merchandise sold	240,000
Gross margin	$160,000
Direct departmental expenses (Departmental salaries, direct advertising and other expenses related to the operation of the department)	$120,000
Contribution to general overhead (Departmental net income before assessment of proportional charges for general overhead expense)	$ 40,000
Allocation of general overhead costs (Rent, general office salaries, institutional advertising, etc.)	$ 50,000
Departmental income (loss) before income tax	$ 10,000

According to this report, Department W is losing money. Everything possible has been done to improve its operation but it is still

The costs that will be changed are the only ones to be considered in decisions

losing money. Should it be discontinued? Let us construct a cost and income figure appropriate for this particular decision.

First, we should exclude common costs, those that will remain the same regardless of our decision. This means that we should ignore all allocation of general overhead costs which will not be affected by the decision and consider only those costs which will be eliminated if the department is discontinued. At this point suppose we find that all of the general overhead allocation is fixed and that none of it will be eliminated if Department W is discontinued. It is apparent, then, that the department is making a "contribution to overhead" of $40,000—income in excess of direct (variable) costs—even though $10,000 less in amount than its share of overhead.

We should also check to see if the past cost (and income) figures reflect a fair estimate of future operations; if not, adjustments should be made to obtain an estimate of future contribution to general overhead.

This estimate should then be charged with or compared with any lost opportunity cost—in this case any amount that could be obtained from this same space, either by operating a different kind of department, expansion of a contiguous department, or even by rental. If no alternative use for the space will yield a larger contribution to overhead than will this department, it should probably be continued.

Some distinction should be made between the short-run view and the long-run view. For example, for the short-run, depreciation on the department's furniture and fixtures should be ignored because it is a past cost. Only to the extent of their present value either for sale or for use elsewhere in the store should furniture and fixture costs be considered. For the long-run view, however, both depreciation and imputed interest on investment (or appraisal of rate of return) should be considered, since eventual replacement must be contemplated. The cost to consider in this long-run situation, however, is not the past cost of the existing fixtures but the estimated future replacement cost.

It should be noted in passing that in a department store probably no management objective is achieved by the allocation of general overhead to departments. It would seem that each department's contribution to overhead, (its income before any charge for a fair share of fixed general overhead expenses)—appraised in terms of alternative use of the space—would be the best management information.

Similarly, it is doubtful that in most other business situations any management objective is achieved by allocating general-office overhead to manufacturing or other operating divisions, except, possibly, that part of it which can, in effect, be charged out on an optional use basis. Here, too, the amount of the contribution to general overhead may be more useful for most management purposes than a divisional profit that reflects a proportional charge for a fair share of these fixed general overhead costs.

Case No. 2 *Make or buy*

The constant and recurring problem of make or buy is full of complexities and involves many factors other than the comparative costs of the alternatives. The discussion here is restricted to the cost factors.

In this case the company is making a part for which the monthly reports show an average unit cost, say, of $13.57. It can buy the part for, say, $11.50.

Should we make or buy?

The monthly cost report, developed primarily for the determination of inventory and cost of goods sold, reflects past costs rather than estimated future costs, includes both variable and fixed costs, and fails to reflect either interest on investment or lost opportunity costs.

It is fairly clear that we must develop a special cost figure for this specific decision.

Here, again, we should exclude costs common to both alternatives—costs that will not be eliminated if we decide to buy the part. Certainly most general overhead should be excluded. For the short-run, imputed interest on investment and depreciation on facilities should also usually be excluded.

On the other hand, the cost should include any part of general overhead that would otherwise be avoided, as well as any lost opportunity cost represented by the value of space, equipment, or management time that would otherwise be available for other uses. All costs that are included should be estimated future costs rather than the past costs, and should be related to the anticipated volume of sales. This cost should then be compared with an estimate of the price at which we can buy the part in the future.

As in the previous case, if the decision is for the long run, then certain other costs must be considered —costs which are fixed in the short run but which become variable in terms of a long-run decision. For example, the decision might well be to continue making the part until present equipment is worn out, and then to buy it.

It should be noted particularly that consideration of a possible shift from buying to making presents a substantially different problem than this. Here practically all of the estimated manufacturing costs should probably be considered, including full allocation of overhead. Few of these costs would remain unaffected by the decision.

Case No. 3

The most profitable product or line

In determining which of several manufactured products should be pushed—on which products money should be spent for sales promotion and advertising, on which products the salesmen should be given higher commissions—what costs should be given consideration? The common sense answer is that for this decision only variable costs are pertinent—those which increase with greater production volume and which decrease when production declines—principally direct labor, material, and variable overhead costs.

It would seem clear that this cost figure should not include general overhead costs which are allocated on a predetermined percentage basis and which will remain constant in total regardless of what decision is made. If increases in volume which may be involved in the decision can be produced within existing capacity, it is possible that all fixed costs, even those of the division and department, may be ignored for purposes of this decision—at least in the short run. In such a case, the decision should rest on the estimated cost of obtaining additional sales

BETTER DECISIONS

continued

volume, relative to the resulting increase in the contribution to fixed costs, regardless of the amount of the fixed costs.

Case No. 4

The replacement of equipment

The oft-repeated statement that depreciation on the declining amount leads to earlier replacement of equipment carries some misleading implications.

Of course declining-amount depreciation for income tax purposes does defer tax payments, at least temporarily, and provides capital with which to pay for new equipment. Other than for provision of capital, however, neither the method nor the rate of depreciation, on existing equipment, has a material bearing on whether we should continue to use the old equipment or replace it. The correct determination of the relative costs of using the old and new equipment should ignore both the cost and the book value of the old equipment; it should give consideration only to its scrap value, or its present value for other purposes. The computation should include depreciation and imputed interest on investment (or appraisal of rate of return) on the new equipment.

Case No. 5 *Pricing policy*

It is generally recognized that costs do not ordinarily determine prices (the pricing of cost-plus contracts is a notable exception). But costs do enter into pricing policy. In a minimum cost-price relationship, costs are used to test the adequacy of prices, but many variables other than cost affect price policy.

Many types of pricing problems require substantially different cost information. Only a few are considered here.

Long-range pricing: In most situations the most important pricing problem is probably that of determining, or revising, the long-range price of a single product or a line of products. This pricing decision—and only this one—should ordinarily be based on an average unit cost comprised of all cost components, including an allocation of a fair share of fixed general overhead costs.

But this is not to say that the average unit cost for a past period

is a useful cost figure for this purpose. Far from it. As the controller of a large farm implement company put it—"The figure we want is an estimate of what it will be costing us to make another tractor when the tractor we are now pricing is being delivered to the farmer."

Any current or contemplated changes in material cost, wage rates, methods of production, productivity, or sales volume, should be reflected in this estimated future cost.

Furthermore, certain imputed costs not reflected in past costs should be included directly or indirectly, such as imputed rent of owned facilities, or imputed interest on investment in specific facilities.

Depreciation on current costs: While it is generally recognized that pricing, as well as other management decisions, should ordinarily be based on present or estimated future costs rather than past costs, the inclusion of straight-line depreciation computed on the current replacement costs of existing facilities may result in an overstatement of costs. Straight-line depreciation (a uniform charge each year) makes no allowance for declining physical efficiency, constantly increasing repairs, or the gradual encroachment of obsolescence. But the services of an old machine with reduced productivity are not worth as much as the services of a new modern machine, and a straight-line depreciation charge assumes that they are.

The best answer would seem to be to use an appropriate declining-amount depreciation method which does reflect the influence of these forces. Then, in its later years, a machine would have a lower annual percentage-of-cost depreciation charge. This smaller charge, adjusted to a current cost basis, would seem to be a sound measure of the allocated cost of the machine's services (the value of such services having declined with use) and should yield a present cost that is useful for management decisions, including long-range pricing.

In some industries, where profit margins are currently rather thin, management is reluctant to compute costs—particularly depreciation—on a current (higher) cost basis, because, they say, "We would price ourselves out of the market." This attitude reflects a misconception of cost-price relationships. Cost is only one determinant of price. Even though full recovery of a present cost may not be possible in the current market, the cost is still there. Only a present cost figure will indi-

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continued

cate the degree to which prices are inadequate.

Pricing in a period of declining prices: In a declining market it is just as important to relate selling prices to present costs as in a rising market. A manager of a large department store, in a period of declining prices, adopted the policy of refusing to give his department buyers any information about the prices they had paid for their merchandise. He insisted that they should establish their selling prices on the basis of the prices at which they could replace the merchandise at the time of sale. Furthermore, he assured them that they need not worry about the markdowns that would be charged to their departments, insofar as the markdowns could be related to declining wholesale prices on merchandise generally replaced as fast as it is sold. This would seem to reflect a perfectly sound cost-price relationship in this situation.

Pricing in special situations: Opportunities may arise to quote prices in special situations, nonrecurring, perhaps, and outside of normal markets. These opportunities may represent additional business not available except at special prices. What cost is appropriate for determining prices in these situations?

If the additional volume is within existing production capacity, there is no cost reason why the minimum cost figure for this purpose should not exclude all fixed overhead costs —all these costs which would not be affected by increased production. Included would be only the variable costs—those costs which would be affected—direct labor, direct material, variable overhead, and any additional distribution and administrative costs. Of course all costs included should be estimated future costs, not past costs.

To make available the kind of cost figures these examples show to be needed, two steps are necessary:

First, management should learn more about accounting in order that requests for accounting information may be made specifically in terms of the problem to be solved.

Second, accountants should learn more about the nature of management problems, so that they may more intelligently tailor accounting information to management's specific requirements.

—WILLARD J. GRAHAM

CONTROL OF UNIONS WILL COME

ANY LAW WHICH PERMITS the kind of fraud and violence revealed by the McClellan Committee will be changed.

The change may come in the next Congress, which can pass strong, fair, labor reform legislation. Or Congress can pass something resembling the Kennedy-Ives bill which would have increased rather than diminished the power of labor leaders.

If it does the latter it will delay the inevitable only a little while. It will also make a serious political mistake. Never in our history has any group been able to make itself so politically and economically powerful that it could long override the rights of others.

At the moment union leaders seem to have this power. Compulsory membership has given them funds, time, and energy to reward their political friends and to attempt to punish those who displease them. They have boasted that they plan to increase this power.

Their goal is to elect a Congress whose every member will view the national need from the darkness of a labor leader's pocket.

To believe that such an effort can succeed is to lose faith in the American people's wisdom and sense of justice.

The American people still have regard for the rights of property, the dignity of the individual and the basic freedoms—all rights that today's laws permit labor leaders to take away as it suits their purpose. Only the naive still believe that unions must commit these offenses as part of a holy crusade to strengthen a protective democracy of working men. The American people see little democracy in a type of organization which can expel as traitors those who dare to disagree with their leaders.

They will see little reason why such abuses should not be corrected.

The responsibility for correcting them lies with Congress. It can accept this responsibility now. Or it can continue to accept the fiction that a few men are more powerful than all the people and that the way to political success lies in obeying union leaders rather than conscience.

Such a choice will be unfortunate for the country and for those who make it.

The country will eventually elect a Congress which recognizes that it is no longer politically practical to permit a few men to control other men's right to earn a living, join a union or run a business. Such a Congress will know that curbing the excesses of the few for the benefit of the many is neither antiunion nor anti-American

This knowledge may come with the Congress we elect this month. It may come only after racketeering and corruption of some elements of labor become so completely unbearable that even those dependent on union support are ready to put principles above re-election.

The coming Congress can prove its regard for principles by acting on corrective legislation early in the session. Citizens need to demonstrate their willingness to support the action when it is taken.